Appendix A

ABC Lending Corporation

Underwriting Memorandum

[ALL-STAR SPE, LLC]

$85,000,000 Licensing Income Loan Secured by Trademark and License Assets

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Section I: Executive Summary

Overview of Transaction

Manager:	[CHUCKY NEWCO, LLC], a yet-to-be-formed, wholly owned, operating subsidiary (the "Manager") of Converse, Inc. ("Converse")
Borrower:	[ALL-STAR SPE, LLC], a yet-to-be-formed, wholly owned, special-purpose, bankruptcy-remote entity (the "Borrower") of the Manager.
Lender:	ABC Lending Corporation
Servicer:	ABC Servicing Corporation, LLC.
Collateral:	All trademarks, patents and all existing, renewal and future licenses and license income of Converse
Loan Amount:	$85,000,000, subject to Rating, Securitization and Cash Flow Verification.
Rating:	Minimum "A", or equivalent from two ratings agencies.
Loan Interest:	[TBD]% over comparable Treasury benchmark, as determined at closing. Assumed to be [10.00%] herein.
Legal / Expected Term:	20 years / 10 years
Expected Average Life:	[5.45] years (ABC Scenario) / [5.04] years (Management Scenario)
Loan Payments:	Payable quarterly, as determined by Transaction Waterfall.
Credit Enhancements:	
Lockbox:	Full cash flow sweep of license income into lockbox controlled by Servicer, subject to disbursement as indicated in waterfall.
Liquidity Reserve:	10.00% [$8,500,000]
Liquidity Reserve Floor:	[2] times the initial quarterly Minimum Debt Service plus Minimum Accelerated Principal payments.
Accelerated Principal Account:	An accelerated principal account held in the name of Lender will be utilized to accumulate funds from the cash flow generated from the License Collateral for quarterly application to payment of Loan principal.
Back-up Manager:	Jassin-O'Rourke Group, LLC or successor(s) as provided for in the Transaction Documents. Upon replacement of the Manager, the Back-up Manager will be responsible for enhancing the Collateral Cash Flow by overseeing existing sub-licenses through maturity, negotiating the Retail Put Contract and identifying a Qualified Manager and/or Qualified Master Licensee.
Retail Put Contract:	Upon termination of the Manager, the Lender shall have the right to sell a master license to a qualified manager or retailer, as defined by the transaction documents and determined in the Trigger Date, at the sole discretion of the Lender, under the advice of the Back-up Manager. The Retail Put Contract will allow for the master licensor to assume all existing sub-licenses upon maturity / cancellation.
Underwritten DSCR:	[1.54]x
Minimum DSCR:	[1.30]x
Trigger DSCR:	[1.10]x
Default DSCR:	[1.00]x
Gross LTV / Net LTV:	[37.8% / 32.5%, See PwC Valuation]
Expected Closing Date:	xx/xx/xx

Introduction

The Borrower has requested approval for a licensing income loan (the "Loan") collateralized by: (i) all trademarks and all existing, renewal and future licenses of Converse Inc. (the "License Collateral") and (ii) all related existing, renewal and future license income generated by such License Collateral (the "License Income", License Collateral and License Income collectively, the "Collateral").

The purpose of the loan is to provide Borrower with the funds necessary to acquire the License Collateral from Converse Inc. ("Converse" or the "Company"). Converse will use proceeds from the sale of the License Collateral to pay down existing indebtedness and provide incremental working capital.

The following chart summarizes the consolidated Sources & Uses of the transaction:

Sources of Capital		**Uses of Capital**	
Senior Debt (UCC)	85,000,000	Repayment of Existing Secured Debt	69,245,000
Total	**$ 85,000,000**	Manager Capitalization	2,500,000
		UCC Liquidity Reserve	8,500,000
		Transaction Fees & Expenses	4,755,000
		Total	**$ 85,000,000**

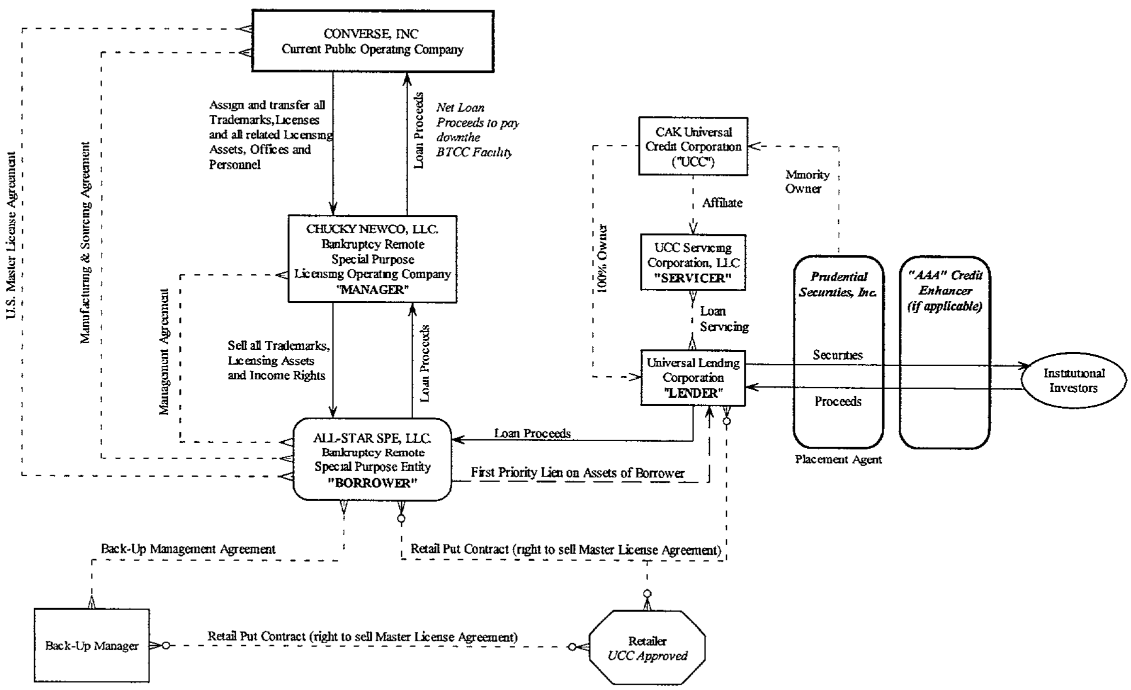
Converse is a leading global designer, manufacturer and marketer of high quality athletic footwear for men, women and children. Converse is also a global licensor of sports apparel, accessories and selected footwear. Converse, founded in 1908, began establishing its authentic footwear heritage with the introduction of its original canvas Chuck Taylor® basketball shoe in 1917. Throughout its 91-year history, Converse has achieved a high level of brand name recognition due to its reputation for high performance product, quality, value and style. Through its well-known Converse® All Star® brand, Converse has consistently maintained its position as the American performance brand with authentic sports heritage. The Converse brand is one of the few American brands with the longevity, brand equity and consumer recognition required to allow it to be compared to the large worldwide brands that are currently garnering headlines in the brand marketplace (i.e., Gucci, adidas, Fendi, Tag Heuer, Versace, Thomas Pink and Feragamo) with regards to recent transactions that have set new highs for the valuation of these types of assets (refer to Appendix I: Industry Overview for additional discussion).

Converse's products are distributed in over 90 countries to approximately 6,000 customers, which include specialty athletic, sporting goods, department and shoe stores, as well as to 27 Company-operated retail outlet stores. In 1998 Converse reported net sales of $308.4 million, excluding licensed products. This figure understates the total worldwide presence of Converse-branded products since a large amount is sold through licensees, and Converse recognizes only a percentage of these licensees' sales which it records as royalty income. Global wholesale sales of Converse-branded products, which include direct sales by Converse to retailers, sales by Converse distributors and sales of licensed products by Converse licensees, were approximately $681 million in 1998. For the same period, royalty income was approximately $20.2 million.

Management believes that Converse is well positioned to take advantage of international growth opportunities to expand licensing revenue, specifically in Western Europe and the Pacific Rim as well as in the developing markets of Latin America and Eastern Europe. Although the tradition of the Converse® All Star® brand as a high performance brand is not as well known internationally as in the United States, Converse believes that because of the global reach of NBA basketball, music, fashion, media and alternative sports, the styles and trends among Converse's target customer group internationally are similar in many ways to those in the United States. Currently, 42 of the 55 licensing agreements are international licenses.

Transaction Structure

In association with the proposed transaction, Converse will undergo a significant corporate restructuring. The purpose of this restructuring is to assist in effectuating a cleaner transaction and to minimize any qualifications needed in the true sale and non-consolidation opinions. The proposed restructuring provides enough separation between the Borrower and Converse Inc. to minimize any bankruptcy risk posed by Converse's recent operating history, thereby providing a stronger credit position. As indicated below in the graphic illustration of the proposed transaction structure, post-closing, there will be two new legal entities created.



Through the creation of Chucky Newco (the "Manager"), a newly created operating subsidiary of Converse, the Company will, for all intents and purposes, become a third-party licensee (under a Master License Agreement), manufacturing and distributing Converse athletic footwear within the United States and supplying product to certain international markets. Under the terms of the Master License Agreement, Converse will be subject to customary terms, including the payment of royalties to the Borrower and maintaining certain performance criteria in a manner consistent with a license of this nature. The Master License will be part of the Loan Collateral. Consistent with current terms in many of Converse's existing licenses with third parties, the Master License Agreement will require that Converse maintain a standard of performance and fiscal strength.

Should any terms of the license be broken, Chucky Newco, as Manager of the Licenses, will have the right and in certain instances (refer to the Summary of Terms and Conditions in Appendix A) be required to terminate the Master License Agreement on behalf of the Borrower.

Chucky Newco, as a Qualified Manager, will be required, in return for Administration Fees, to manage and exploit the Trademarks and Licenses on a Best Efforts basis. Should the Manger not perform its duties as required, or if the Manager cannot maintain its status as a Qualified Manager, the Lender shall have the right to terminate the Manager and install a Back-up Manager. The Back-up Manager, Jassin-O'Rourke Group, LLC (or its successor), will, in return for a pre-determined fee, continue to administer the Trademarks and Collateral, while pursuing alternative forms of exploitation that will protect and enhance the cash flow of the Borrower. The options available (the Exploitation Rights) shall include, though shall not be limited to the negotiation of a Retail Put Contract, the identification of a replacement Qualified

Manager and/or Qualified Master Licensee and ultimately, upon default, the immediate liquidation of the collateral.

Overview of Collateral (refer to Section II for details)

The collateral for the proposed loan consists of all trademarks, patents and all existing, renewal and future licenses of Converse as well as all income generated by such license collateral.

Converse has entered into 55 separate licensing agreements permitting the licensees to design and market selected products under the Converse brand name in specific markets. Under the terms of Converse's licensee arrangements, all products designed by licensees, as well as related advertising, must be approved in advance by Converse. In addition, Converse has the right to monitor the quality of the licensed products on an ongoing basis.

Product categories currently licensed are summarized below:

Category:	*Examples:*
Athletic Footwear	Performance (basketball, training), Action Sports
Casual Footwear	Canvas All-Star, Jack Purcell
Athletic Activewear	(training shirts, pants & tank tops, game shirts & pants, windbreaker shirts & pants, parkas)
Casual Wear	(denim & polo shirts, sweaters, sweatshirts, cardigans, t-shirts)
Underwear (Men's & Women's)	(boxers, briefs, sleepwear, loungewear)
Swimwear (Men's & Women's)	
Infantwear & Children's Apparel	
Accessories	(hosiery, shoe laces, socks, hats, watches, eyewear, gloves, belts, purses, wallets, athletic bags)
Sports Equipment	(basketballs)
School Supplies	(bookbags, pens, binders, erasers, pencils, pencil tins)

The collateral licenses represent the obligation of the licensees to pay royalties to Converse on the products manufactured and sold by the licensees. Royalties are typically paid quarterly, in arrears based upon a percentage of net sales, with most licenses providing for minimum royalties (based upon minimum sales requirements). The licenses are typically three-to-five years in length and may include renewal options based upon the licensee meeting prior performance criteria. In addition, although royalty payments are typically made in U.S. dollars, Converse has used forward foreign exchange contracts to hedge significant net currency exposure (see Section VII: Risks & Mitigating Factors, Foreign Currency Transactions).
Under the terms of the license agreements, all products designed by licensees, as well as the related advertising, must be approved in advance by Converse. In addition, the license agreements give Converse the right to monitor the quality of the licensed products on an ongoing basis.

On November 29, 1999, Converse, Inc. announced that it completed the sale of all its non-footwear trademarks in Japan and the assignment of its Japanese non-footwear trademark license agreements to Itochu Corporation for $25 million cash. The licensees represented by these marks are projected to generate $4.2 million of licensing revenue in 1999 or $3.8 million of licensing income after withholding taxes. This represents a purchase multiple of approximately 6.1 times licensing revenues, and 6.8 times licensing income. Management believes that the sale of these bifurcated marks supports the value of the Converse trademarks as a premium brand based on this arm's length transaction with Itochu (Refer to Appendix H: Industry Expert Opinions for a memo from Jassin-O'Rourke Group, LLC, speaking to additional implications of the sale of the Japanese non-footwear trademarks to Itochu).

Unless indicating otherwise, all data and charts contained herein are presented on an actual reported basis. Those charts that have been adjusted to reflect the sale of the Japan non-footwear trademarks will be labeled as appropriate.

Borrower's Historical Performance and Projections (refer to Section VI for detail)

Converse was founded in 1908, and operated as an independent family-owned company until 1971, when Converse was acquired by Eltra Corporation, a diversified holding company. In 1983, Converse became a publicly traded company through an IPO. In 1986, Furniture Brands, then named INTERCO Inc., acquired Converse. In 1992, Apollo Investments Fund took control of INTERCO which had been operating under federal bankruptcy protection since January 1991. On November 17, 1994, Furniture Brands (formerly known as INTERCO) distributed to its stockholders all of the outstanding Common Stock of Converse and Converse became an independent publicly-held company.

Converse, now controlled by Apollo Advisors and its affiliates, installed a new management team in 1996 which instituted a strategy for the Company which included a "continuing focus on licensing opportunities". Since then, despite decreasing Company net sales, royalty income has accounted for a stable source of income.

The following table details actual historical sales by Converse's licensees and the related royalty income to Converse.

	1994	1995	1996	1997	1998
Total sales by licensees					
Footwear	90,449	84,231	101,117	141,344	121,666
Apparel & accessories	106,490	178,185	307,011	208,866	179,330
Total	**196,939**	**262,416**	**408,128**	**350,210**	**300,996**
Total royalty income					
Footwear	7,653	7,046	7,944	10,013	9,776
Apparel & accessories	6,559	10,211	19,694	12,556	10,399
Total	**14,212**	**17,257**	**27,638**	**22,569**	**20,175**
Average royalty rate					
Footwear	8.46%	8.37%	7.86%	7.08%	8.04%
Apparel & accessories	6.16%	5.73%	6.41%	6.01%	5.80%
Total	**7.22%**	**6.58%**	**6.77%**	**6.44%**	**6.70%**

For the first three quarters of 1999, Converse's royalty income increased to $15.0 million from $14.0 million for the first three quarters of 1998, or approximately a 7.3% increase.

It is important to note that, with regard to the proposed transaction, because Converse will be a licensee of the trademark, Converse will contribute through the Master License Agreement to the Debt Service of the Loan. Accordingly, a historical pro forma must be constructed converting the net sales of Converse into licensing cash flow. Assuming a master license agreement is signed with a 0.5% net royalty*, pro forma historical licensing cash flow would be as follows:

	1994	1995	1996	1997	1998
Reported Net Sales (Converse, Inc.)	437,307	407,483	349,335	450,199	308,353
Reported Licensing Income	14,212	17,257	27,638	22,569	20,175
Master License Income Adjustment	2,187	2,037	1,747	2,251	1,542
Sub-total	**16,399**	**19,294**	**29,385**	**24,820**	**21,717**
LESS: Ave. Foreign Tax Provision (12%)	(1,968)	(2,315)	(3,526)	(2,978)	(2,606)
Net Pro forma Licensing Cash Flow	**14,431**	**16,979**	**25,859**	**21,842**	**19,111**

**Historical tax provision – 12% before sale of Japanese non-footwear trademarks.*

**The net royalty rate reflects a gross royalty less advertising and other investments, (e.g. research and development, property, plant and equipment)*

Collateral Valuation

PricewaterhouseCoopers ("PwC") was engaged by the Company to provide an overall valuation of the License Collateral in March 1999. As indicated in the table below, PwC has valued the collateral at an average of $223.4 million

Methodology:	Income (discounted cash flows)				Market	Cost
Scenario:	Management	Low	Moderate	High		
Trade Name						
Period 1999-2010	52.0	22.0	44.0	76.0		
Beyond 2010	44.0	11.0	25.0	67.0		
Subtotal	96.0	33.0	69.0	143.0		63.0
Licensing Income						
Period 1999-2010	88.0	69.0	86.0	118.0		
Beyond 2010	71.0	34.0	69.0	103.0		
Subtotal	159.0	103.0	155.0	221.0		
Period 1999-2010	140.0	91.0	130.0	194.0		
Beyond 2010	115.0	45.0	94.0	170.0		Average
Total Valuation	**$ 255.0**	**$ 136.0**	**$ 224.0**	**$ 364.0**	**$ 138.0**	**$ 223.4**
Gross LTV	43.14%	80.88%	49.11%	30.22%	79.71%	49.2%
Net LTV	36.7%	68.9%	41.8%	25.7%	67.9%	41.9%

ABC subsequently requested that PwC issue a letter furnishing a conclusion of value for the Collateral. The letter (see Appendix F) concluded that the Collateral's value was $250 million.

For the purposes of determining Loan-to-Value ("LTV") for the transaction, adjusted for the sale of the Japan non-footwear trademarks, ABC has reduced PwC's valuation by the $25 million purchase price. The adjustment results in a Gross LTV of 37.8% and a Net LTV of 32.5%.

Net LTV is calculated as the gross Loan Amount minus reserves and origination fee divided by the value of the asset.

Rating

Moody's Investors Service, Fitch IBCA, Inc., Duff & Phelps Credit Rating Co. and Standard & Poor's Ratings Services have been engaged to provide a ratings opinion on this transaction. A standalone rating of "A" or greater from at least two rating agencies is expected.

Recommendation

Based on the quality of the Converse brand and the License Collateral, the relatively low loan-to-value ratio, the Back-up Manager, Converse's Restructuring Plan, the Retail Put Contract and the Master License Agreement, in addition to the internal credit enhancement (liquidity reserve, additional liquidity reserve, excess spread, accelerated principal account, use of lock-box), we are recommending approval of this transaction as outlined herein.

Section II: Collateral Analysis

The Converse Brand

Converse, founded in 1908, began establishing its authentic footwear heritage with the introduction of its original canvas Chuck Taylor® basketball shoe in 1917. Throughout its 91-year history, Converse has achieved a high level of brand name recognition due to its reputation for high performance products, quality, value and style. Through its well-known Converse® All Star® brand, Converse has consistently maintained its position as the American performance brand with authentic sports heritage.

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The Jassin O'Rouke retailer opinion pool ranks the Converse brand 6th in athletic footwear and apparel. (refer to Appendix H: Industry Expert Opinion).

Below is the 1999 Fairchild 100 Consumer Survey that ranks the most recognizable brands in apparel and accessories. Converse was ranked 61st, maintaining its ranking since the 1997 Survey. In light of the company's current fiscal condition, falling sales and decreased marketing, this maintenance of rank position speaks to the strength of the Converse brand.

THE 100 MOST RECOGNIZED BRANDS

RANK	*BRAND*	*PRODUCT*	*VOLUME*	*OWNER*
1	Timex	Watches	$600 mil	Timex Corp., Middlebury, Conn.
2	L'Eggs	Legwear	$388 mill	Sara Lee Corp., Chicago
3	Hanes	Hosiery, innerwear	$200 mil	Sara Lee Corp., Chicago
4	Hanes Her Way	Daywear, underwear, bras, socks,casual shoes, casualwear, athomewear, bodywear, baby wear, kids' wear & casual shoes	Over $800 mil	Sara Lee Corp., Chicago
5	Levi Strauss	Jeanswear, licensing	$6 billion (includes Dockers & Slates brands)	Levi Strauss & Co., San Francisco
6	Nike	Activewear, athletic footwear, sporting goods, accessories	$8.7 billion	Nike Inc., Beaverton, Ore.
7	Liz Claiborne	Sportswear, dresses, licensing	$2.5 billion	Liz Claiborne Inc., New York
8	Lee	Jeanswear	$900 mill	VF Corp., Greensboro, NC
9	No Nonsense	Legwear	$240 mill	Golden Lady SpA, Astiglione della Stivierre, Italy
10	London Fog	Outerwear, rainwear	$300 mil	London Fog Industries, New York
11	Seiko	Watches	$400 mill (U.S. estimate including sales form the Pulsar line)	Seiko Corp., Tokyo
12	Playtex	Bras, shapewear	$800 mil to $900 mil	Sara Lee Corp., Chicago.
13	Victoria's Secret	Bras, daywear, sleepwear, robes, fragrance, hosiery, swimwear, casualwear, ready-to-wear, beauty, bath & body products	$3.9 billion	Intimate Brands Inc., Columbus, Ohio
14	Reebok	Activewear, athletic footwear, accessories	$3.2 billion	Reebok International, Stoughton, Mass.
15	Gap	Retailer of jeans & sportswear	Approx. $4.5 billion, Gap stores only	Gap Inc., San Francisco, CA
16	Fruit of the Loom	Underwear, daywear, activewear	$2.17 billion (corporate); $120 million to $125 million (women's FTL innerwear)	Fruit of the Loom Inc., Chicago
17	Wrangler	Jeans, licensing	$1.5 billion	VF Corp., Greensboro, NC
18	Disney	Sportswear, footwear, retail, activewear, sleepwear, accessories	$3.03 billion in consumer products	The Walt Disney Co., Burbank CA
19	Calvin Klein	Designer apparel, jeans, fragrace, licensing, retail	$2.55 billion	Calvin Klein Inc., New York
20	Ralph Lauren	Sportswear, licensing	$3.55 billion worldwide	Polo Ralph Lauren Corp., New York
21	adidas	Activewear, athletic footwear, accessories & sporting goods	$6 billion	adidas AG, Herzogonaurach, Germany
22	Bali	Bras, shapewear, daywear, panties	$550 million	Sara Lee Corp., Chicago.
23	Nine West	Footwear, accessories	$950 million at retail for Nine West brand alone, includes licensing royalties	Jones Apparel Group, New York
24	Tommy Hilfiger	Sportswear, swimwear, fragrance, accessories	$1.7 billion, overall; women's: $405.7 million	Tommy Hilfiger Inc.
25	Jantzen	Swimwear, sportswear	$130 mil (swimwear, $100 million; sportswear, $30 mil)	VF Group., Wyomissing, Pa.

THE 100 MOST RECOGNIZED BRANDS (cont.)

RANK	*BRAND*	*PRODUCT*	*VOLUME*	*OWNER*
26	Maidenform	Bras, shapewear, panties	$250 mil	Maidenform Worldwide Inc., New York (No longer in bankruptcy proceedings, Maidenform is controlled by a private gorup of financial investors)
27	Eddie Bauer	Outerwear, sportswear	$1.5 billion	Spiegel Inc., Downers Grove, ILL.
28	Land's End	Catalog retailer of sportwear, outerwear, accessories	$1.37 billion	Lands' End Inc., Dodgeville, Wis.
29	Old Navy	Jeans, sportswear	$3.5 billion to $4 billion	Gap Inc., San Francisco, CA
30	Jockey For Her	Underwear, bras, daywear, hosiery	$150 mill to $175 mill (innerwear)	Jockey International, Kenosha, Wis.
31	Guess?	Jeans, sportswear, licensing	$472 mill	Guess Inc., Los Angeles
32	cK Calvin Klein	Sportswear, licensing	$3.5 billion at retail (estimate)	Calvin Klein Inc., New York
33	Speedo	Swimwear, accessories	$285.4 mill; $225.1 mill (wholesale); $60.3 mill (retail)	Authentic Fitness Inc., Commerce, CA
34	Bugle Boy	Jeans, sportswear, licensing	$500 million	Bugle Boy Industries, Simi Valley, CA
35	Looney Tunes/Warner Bros.	Apparel, accessories, footwear, outerwear, retail	$4 billion at retail	Time Warner, New York.
36	Anne Klein	Sportswear, licensing	$120 mill wholesale (sportswear), $250 mill (licensing)	Kasper ASL
37	Rolex	Watches	$300 mill (estimate)	Montres Rolex SA, Geneva, Switzerland
38	Danskin	Activewear, dancewear, hosiery	$110 mill	Danskin Inc., New York.
39	Vanity Fair	Bras, panties, daywear, shapewear, sleepwear	$225 mill (estimate)	VF Corp., Greensboro, NC
40	Ray-Ban	Sunglasses	$300 mill	Luxottica Group SpA, Agordo, Italy
41	Champion	Sportsbras, activewear & basic coordinates, under the Champion Jogbra label	Over $50 mill	Sara Lee Corp., Winston-Salem, NC
42	B.U.M. Equipment	Licensed sportswear, accessories	$180 mill	Creditors (SOS Management, a management firm, & Northshore Associates, an investment firm, will own the trademark when creditors are repaid)
43	Totes	Umbrellas, rainwear, accessories	$500 million, combined Totes-Isotoner business	Bain Capital, Boston
44	Chanel	Couture, designer ready-to-wear, fragrances, cosmetics, accessories	Beauty & fragrances: $800 million (est.) Fashion & accessories: $1.2 billion (est.)	The Wertheimer family, through holding company Pamerco, Glarus, Switzerland
45	Jaclyn Smith	Sportswear, accessories, hosiery, intimate apparel	$300 mill	Kmart Corp., Troy, Mich.
46	Esprit	Sportswear, shoes, children's wear, accessories, retail	$375 mill in the U.S., $1.5 billion, all products worldwide	Esprit de Corp. (Three investors--Oakfree Management, Cerberus Partners, Jay Margolis), San Francisco
47	Cherokee	Licensed denim, casual sportswear	$13.3 mill	Cherokee, Van Nuys, CA
48	La Gear	Athletic footwear & casual sportswear	$200 mill	L.A. Gear, Los Angeles, CA
49	Citizen	Watches	$3 billion (overall); $1.5 billion (watch sales & production, estimate)	Citizen Watch Co., Ltd., Tokyo.

THE 100 MOST RECOGNIZED BRANDS (cont.)

RANK	BRAND	PRODUCT	VOLUME	OWNER
50	Casio	Watches, consumer electronics	$1.3 billion (watches only)	Casio Computer Co., Ltd., Tokyo
51	Arizona	Denim items & casual sportswear	$1 billion	J.C. Penney Co., Plano, Tex.
52	Christian Dior	Couture, designer rtw, frangrances, cosmetics, accessories	Beauty & fragrances: $804.8 mill (est.) Fashion & accessories: $209.7 mill (est.)	Christian Dior SA, Paris
53	Gucci	Leather goods, footwear, rtw, accessories, frangrances, licensing	$1.04 billion	Gucci Group NV, Amsterdam
54	Gitano	Jeanswear	$150 mill (Gitano brand alone); $250 million total, including private label production	Fruit of the Loom Inc., Chicago.
55	Jordache	Jeanswear, licensing	$400 mill	Jordache Enterprises Inc., New York, NY
56	Jones New York	Sportswear, dresses, accessories	$4 billion	Jones Apparel Group, Bristol, PA
57	Bill Blass	Designer ready-to-wear, licensing	$760 mill (licensing, at retail); $20 mill-$25 mill (collection, at retail)	Bill Blass Ltd., New York.
58	Gloria Vanderbilt	Jeanswear, licensing	$275 mill (apparel & licensing)	Gloria Vanderbilt Apparel Corp., New York
59	Spalding	Men's, women's & children's activewear, produced through licensees; Spalding also produces sporting goods, including football, basketball, baseball & golf equipment	Total company, $650 million; women's, $15 mil	Spalding Sports Worldwide, Chicopee, MA
60	Wonderbra	Bras, shapewear	$125 mill to $150 mill	Sara Lee Corp., Chicago.
61	Converse	Basketball & cross-training shoes; licensed women's apparel	$308 mill	Converse Inc., North Reading, MA
62	Catalina	Swimwear, sportswear, accessories	$125.4 mill	Authentic Fitness Corp., Commerce, CA
63	Giorgio Armani	Ready-to-wear, accessories, licensing, retail	$1.3 billion	Giorgio Armani SpA, Milan.
64	Swiss Army	Watches, sunglasses, travel gear	$127.9 mill	Swiss Army Brands, Inc., Shelton, Conn.
65	Pierre Cardin	Couture, designer ready-to-wear, fragrances, cosmetics, accessories & other nonfashion related products	Beauty & frangrances: $101 mill. All other Cardin-branded goods: $1.4 billion at retail. Cardin products are made under license.	Pierre Cardin, Paris.
66	Capezio	Dancewear, footwear, accessories	$75 mill	Ballet Makers Inc., Totowa, N J.
67	Swatch	Watches	$70 mill (U.S. estimate)	The Swatch Group Ltd., Biel, Switzerland
68	Frederick's of Hollywood	Bras, panties, daywear, sleepwear, robes, ready-to-wear, bath & body products	$147 mill	Knightsbridge Capial Inc., Chicago
69	Olga	Bras, shapewear	$170 mill to $200 mill (estimate)	The Warnaco Group, New York
70	Foster Grant	Sunglasses	$125 million	Aai.Foster Grant, Smithfield, R.I.
71	Ocean Pacific	Sportswear, swimwear, outerwear, footwear, accessories	$120 mill	Berkeley International, Capitol Corp., San Francisco
72	Oscar de la Renta	Designer rtw, licensing	$40 mill collection (est. wholesale) & $550 mill (est. retail) in sales of licensed goods	Oscar de La Renta Ltd , New York

THE 100 MOST RECOGNIZED BRANDS (cont.)

RANK	*BRAND*	*PRODUCT*	*VOLUME*	*OWNER*
73	Warner's	Bras, shapewear	$400 mill to $500 mill	The Warnaco Group, New York
74	Kathie Lee Collection	Dresses & sportswear for Wal-Mart	$660 mill (estimate)	Wal-Mart Inc , Bentonville, AK
75	Banana Republic	Sportswear, dresses, accessories	$1.5 billion	Gap Inc., SanFrancisco.
76	Burlington	Hosiery	$15 mill	Golden Lady SpA, Mantova, Italy
77	Chic/HIS	Jeanswear, licensing	$254 mill	Chic by HIS Inc.
78	Monet	Fashion jewelry	$88 mill (Monet brand only)	Chase Capital Partners, New York (majority owner)
79	Coach	Leather goods & accessories, footwear, watches, furniture	$550 mill	Sara Lee Corp., Chicago, IL
80	J. Crew	Sportswear catalog & retailer	$600 mill, with 50 percent of the volume generated from its stores	J.Crew Corp., New York.
81	Izod	Women's and men's golf wear, men's sportswear	$200 mill overall; women's $20 mill	Philips-Van Heusen Corp., New York
82	Riders	Jeanswear	$225 mill	VF Corp., Greensboro, NC
83	Tiffany	Fine jewelry, watches, tabletop, accessories	$1.2 billion	Tiffany & Co., New York
84	Donna Karan	Sportswear, jeanswear, retail, licensing	$1 billion, including licensing products	Donna Karan International, New York
85	Timberland	Footwear, apparel & accessories	$903 mill	The Timberland Co., Stratham, NH
86	Yves Saint Laurent	Couture, designer rtw, fragrances, cosmetics, accessories	$435 mill for fashion & frangrances. Most products produced under license.	Artemis, Paris.
87	Gold Toe	Legwear	$150 mill, men's, women's & children's	Great American Knitting Mills, a division of Cluett American Corp., Burlington, NC
88	Perry Ellis	Men's and boy's wear, fragrance, licensing	$900 mill at retail; licensing revenues are $16.2 mill; women's represents 5 to 10 percent of volume	Supreme International, Miami
89	DKNY	Sportswear, jeanswear, retail, licensing	$800 mill wholesale, including licensing products	Donna Karan International, New York
90	Cartier	Fine jewelry, watches, luxury products	$1.3 billion (est.)	Vendome Luxury Group, London
91	Fila	Activewear, athletic footwear, accessories	$1.1 billion	Fila SpA., Biella, Italy
92	Faded Glory	Jeanswear, casual sportswear	$2.4 billion retail (estimate)	Wal-Mart Inc., Bentonville, AK
93	Just My Size by Sara Lee	Bras, shapewear, sleepwear, lougewear, hosiery, dresses, jeans	$550 mill	Sara Lee Corp., Chicago
94	Express	Retailer of sportswear	$1.4 billion	Limited Inc., Colombus, Ohio
95	Brittania	Jeanswear	$15 mill	VF Corp., Greensboro, NC
96	Givenchy	Couture, designer rtw, fragrances, cosmetics, accessories	$322 mill at retail for fashion & accessories; $290.3 mill est. consolidated sales for beauty & fragrances	LVMH Moet Hennessy Louis Vuitton, Paris
97	Oscar by Oscar de la Renta	Bridge sportswear	$35 mill (estimate)	Apparel Group International, New York
98	Unionbay	Denim, casual sportswear	$325 mill	Seattle Pacific Industries, Seattle, WA
99	Route 66	Jeanswear, casual wear, accessories	$500 mill (estimate)	Kmart Corp., Troy, Mich.
100	Bob Mackie	Designer eveningwear, licensing	$125 mill (retail estimate through licensees)	Bob Mackie Design Group

Overview of Converse Licensing Operations

Converse utilizes licensees who manufacture or purchase and distribute sports apparel, accessories and selected footwear to provide consumers globally with Converse-branded products from head-to-toe. Converse has entered into 55 separate exclusive licensing agreements in 114 different countries, permitting the licensees to design and market selected products under the Converse brand name in specific markets. The licensed footwear and apparel relationships enable Converse to provide retailers with creative and fresh product lines while minimizing Converse's working capital commitment. The licensing arrangement also allows Converse to focus on marketing, while utilizing the licensees' expertise in design, sales, customer services and distribution.

Licensee income is geographically diversified over several regions including Japan; Southeast Asia; Europe, Middle East and Africa (EMEA); Latin America; Canada; and the United States. As of year-end 1998, licensees in Japan accounted for approximately 43.1% of Converse's total worldwide income (total worldwide royalty income for 1998 was $20.2 million). Of that royalty income, approximately 13.4% ($2.7 million) was generated by licensing income derived from Moonstar, Converse's footwear licensee in that region. Converse royalty income in the Pacific Region, including Japan, contributed 63.7% of total worldwide royalty income. Royalty income generated in the U.S. represented approximately 15.2% of total worldwide royalty income in 1998. Sales in Eastern Europe, the Middle East, Africa and Latin America are made entirely through independent licensees/distributors. The Latin American market is supplied by five licensees/distributors for both footwear and apparel. Of the new licenses entered into during 1999, 72% are in international territories.

Converse has recently converted its operating subsidiaries in Spain, Portugal, Canada, and Italy into licensee agreements. For example, Sportil, S.A. entered into a manufacturing, distribution and license agreement with respect to the distribution of Converse's footwear and apparel in Spain, Portugal and the Canary Islands. Converse believes that this arrangement will allow Converse to "continue to expand our brand in these countries at a decreased cost to Converse". Another example is the manufacturing, distribution and license agreement with Converse Italia S.R.L., with respect to the distribution of Converse footwear and apparel in Italy from the year 2000 onwards. This new relationship will allow Converse to focus on its core strengths of product development, brand positioning and market support, while allowing the licensee partner to use "their formidable experience in the Italian market to service the growing customer base and maximize our growth potential". Collectively, the existing conversions have already reduced operating expenses by $6.2m, working capital by $13.8m, and increased royalty income by an estimated $1.4m on an annualized basis. As per the Restructuring Plan (see Section IV, Restructuring of Converse), management will convert its operations in France, Benelux, Scandinavia, Germany and the United Kingdom from wholly owned subsidiaries to licensee/distributor agreements.

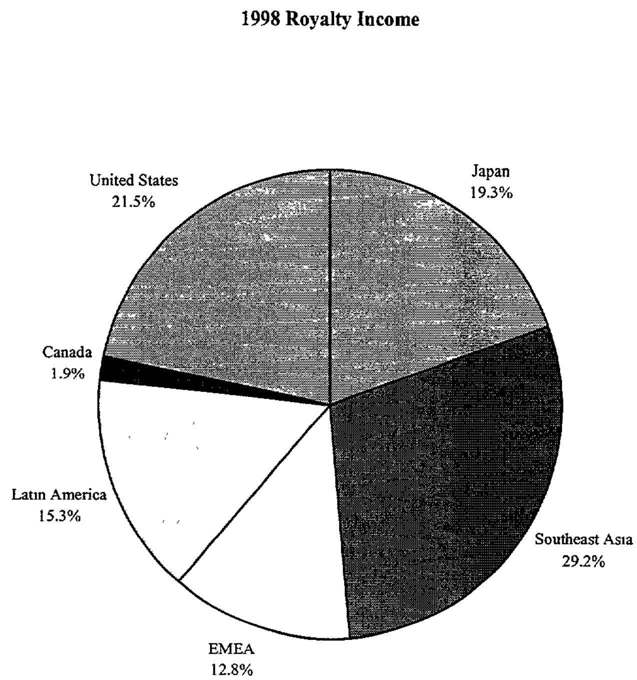
On November 29, 1999, Converse Inc. announced that it had completed the sale of all its non-footwear trademarks in Japan and the assignment of its Japanese non-footwear trademark license agreements to Itochu Corporation for $25 million cash. The licensees represented by these marks are projected to generate $4.2 million of licensing revenue in 1999, or $3.8 million of licensing income after withholding taxes. This represents a purchase multiple of approximately 6.1 times licensing revenues and 6.8 times licensing income. Management believes that the sale of these bifurcated marks supports the value of the Converse trademarks as a premium brand based on this arm's length transaction with Itochu. (Refer to Appendix H: Industry Expert Opinions for a memo from Jassin-O'Rourke Group, LLC, speaking to additional implications of the sale of the Japanese non-footwear trademarks to Itochu).

It is important to note that the multiple for the sale is at a discount compared to the PwC valuation (approximately 11 times annual licensing income) because this sale represents the sale of an interest in Converse's marks in Japan, not the sale of the entire mark/brand. The sale included 16 of the 17 license agreements in Japan. Although these licensees generated a significant amount of the royalty income from the Japanese market, this transaction effectively reduces the concentration risk in that market and substantiates the demand for the Converse brand name in the market. A review of the PwC valuation methodology and the Industry Expert Opinion supports the conclusion that the sale of all remaining

Converse marks, including worldwide apparel and footwear, in addition to the Japanese footwear marks, should generate a valuation of 10 to 12 times the licensing income.

The figure below indicates the breakdown of historical licensee income by geographic region (pro forma for the sale of Japanese non-footwear marks):

1998 Licensee Income by Region



The Trademarks

Converse has registered trademarks and applications throughout Japan, Southeast Asia, Latin America, Canada, Europe, Middle East, Africa and the United States. Although Converse's trademarks are registered in most countries in the world, approximately 20 countries represent the majority of Converse's licensee income. A search performed through Thomson & Thomson found [ ] registrations and applications for Converse in the United States ( ), Canada ( ) and Europe ( ) that protect various styles and combinations of ways in which Converse presents the Converse name and protects itself from trademark infringement. The primary Converse trademarks are "Converse® All Star®", "Chuck Taylor®" and "React®" name and design and the "Converse All Star Chuck Taylor Patch" and "All Star and Design" logos.

Cowan Liebowitz & Latman, P.C. performed the legal due diligence for the Converse trademarks. They performed due diligence on a sample of the Converse trademarks filed. Refer to Appendix G for a copy of the firm's due diligence memorandum.

Below is a listing of all of the countries and territories in which the Converse trademarks are licensed:

Exclusively Licensed Territories

1 Albania
2 Andorra
3 Argentina
4 Australia
5 Austria
6 Azerbaijan
7 Bahrain
8 Belarus
9 Belgium
10 Bolivia
11 Bosnia
12 Botswana
13 Brunei
14 Bulgaria
15 Canada
16 Chile
17 China
18 Colombia
19 Costa Rica
20 Croatia
21 Cyprus
22 Czech Republic
23 Denmark
24 Dominican Republic
25 Ecuador
26 El Salvador
27 Estonia
28 Finland
29 France
30 Free Trade Zone @ Colon Panama
31 Gaza Strip
32 Germany
33 Greece
34 Guatemala
35 Haiti
36 Herzegovina
37 Honduras
38 Hong Kong
39 Hungary
40 Iceland
41 India
42 Indonesia
43 Ireland
44 Isle de Margarita
45 Israel
46 Italy
47 Jamaica
48 Japan
49 Jordan
50 Judea
51 Kazakhstan
52 Kuwait
53 Kygystan
54 Latvia
55 Lebanon
56 Lesotho
57 Lithuania
58 Luxembourg
59 Macedonia
60 Madagascar
61 Malawi
62 Malaysia
63 Malta
64 Mauritius
65 Mexico
66 Monte Negro
67 Namibia
68 Netherlands
69 New Zealand
70 Nicaragua
71 North Yemen
72 Norway
73 Oman
74 Panama
75 Papua, New Guinea
76 Paraguay
77 Peru
78 Philippines
79 Poland
80 Portugal
81 Portuguese Colonies (of Angola, Mozambique)
82 Qatar
83 Romania
84 Russia
85 Saudi Arabia
86 Serbia
87 Seychelles
88 Singapore
89 Slovakia
90 Slovenia
91 South Africa
92 South Korea
93 South Yemen
94 Spain
95 Summarea
96 Swaziland
97 Sweden
98 Switzerland
99 Tajikistan
100 Taiwan
101 Thailand
102 Turkey
103 Turkmenistan
104 Ukraine
105 United Arab Emirates
106 United Kingdom
107 United States of America
108 Uruguay
109 Uzbekistan
110 Venezuela
111 West Bank Territories
112 Yugoslavia
113 Zambia
114 Zimbabwe

Non-exclusively Licensed Territories

1 Benin
2 Burkina
3 Burundi
4 Cameroon
5 Central African Republic
6 Chad
7 Congo
8 Djibouti
9 Egypt
10 Equatorial Guinea
11 Eritrea
12 Ethiopia
13 Gabon
14 Gambia
15 Ghana
16 Guinea
17 Ivory Coast
18 Liberia
19 Madagascar
20 Mali
21 Niger
22 Nigeria
23 Rwanda
24 Senegal
25 Sierra Leone
26 Somalia
27 Sudan
28 Syria
29 Togo
30 Uganda

Converse has performed an analysis of the trademarks, to determine those that are material, as determined by accounting for more than 1% of licensing income as of November 1999. A table summarizing the analysis follows.

Material Trademarks
(1% or greater of license income as of November 1999, YTD)

Territory		% of License Income as of November 1999, YTD		Material Marks	Inactive Marks
Japan	(1)	41.3%	(2)	41	9
United States		14.8%		43	23
Australia/New Zealand		8.9%			
Australia				16	3
New Zealand				12	2
Taiwan		4.3%		21	3
South Korea		4.0%		13	3
Top five licensees		**73.3%**		**146**	**43**
Argentina		3.8%		21	1
Spain		2.9%			
Spain				11	3
Portugal				9	1
Singapore		2.6%		15	1
Thailand		1.9%		10	1
Panama		1.7%		5	2
China		1.5%		12	2
South Africa		1.4%		16	3
Mexico		1.3%		27	2
Philippines		1.2%		8	1
Slovenia		1.1%		4	1
Great Britain		1.0%		18	1
Canada		1.0%		19	7
Total licensees		**94.7%**		**321**	**69**

(1) Includes income from the Japan non-footwear trademarks sold in November, 1999.
(2) Excluding Japanese non-footwear trademarks, the number of Material Marks decreases to 22

Historical Summary of Licenses

The historical income performance of the Converse licenses is summarized below:

CONVERSE INC. ROYALTY INCOME
FISCAL 1987-1998
($ in thousands)

Time Period	Actual	Pro forma (1)
Mar. 1986 - Feb. 1987	$ 1,820	$ 2,987
Mar. 1987 - Feb. 1988	3,504	5,095
Mar. 1988 - Feb. 1989	3,436	5,144
Mar. 1989 - Feb. 1990	4,173	5,635
Mar. 1990 - Feb. 1991	5,527	6,972
Mar. 1991 - Feb 1992	7,213	8,794
Mar. 1992 - Dec 1992	7,640 (2)	8,984 (2)
Jan. - Dec. 1993	10,808	12,710
Jan. - Dec. 1994	14,212	13,894
Jan. - Dec. 1995	17,257	12,660
Jan. - Dec. 1996	27,638	15,093
Jan. - Dec. 1997	22,569	18,384
Jan. - Dec. 1998	20,175	15,792

(1) Pro forma for (i) the sale of the Japanese non footwear trademarks and (ii) the Master License, before taxes.

(2) Ten month fiscal year preceding the change to calendar year reporting

Below is a table summarizing the last five years of historical licensing income and projections for 1999, broken out by region.

ACTUAL

Income by Region	1994	1995	1996	1997	1998	1999
Japan	$ 6,297,088	$ 9,126,352	$ 15,085,754	$ 7,754,079	$ 8,680,419	$ 8,054,489
Southeast Asia	4,115,277	4,319,669	6,252,277	5,576,969	4,164,851	4,854,021
EMEA	1,627,051	2,093,710	2,293,998	3,059,445	1,818,775	2,663,703
Latin America	292,524	375,688	926,142	2,237,406	2,175,797	1,878,778
Canada	281,477	354,351	409,608	131,809	265,343	200,381
Total International	**$ 12,613,417**	**$ 16,269,770**	**$ 24,967,779**	**$ 18,759,708**	**$ 17,105,185**	**$ 17,651,372**
United States	1,599,086	987,235	2,669,991	3,809,561	3,070,361	2,814,944
Total Company	**$ 14,212,503**	**$ 17,257,005**	**$ 27,637,770**	**$ 22,569,269**	**$ 20,175,546**	**$ 20,466,316**

PRO FORMA

*Income by Region**	1994	1995	1996	1997	1998	1999
Japan	$ 3,791,627	$ 2,491,921	$ 794,000	$ 1,318,176	$ 2,754,859	$ 3,812,031
Southeast Asia	4,115,277	4,319,669	6,252,277	5,576,969	4,164,851	4,854,021
EMEA	1,627,051	2,093,710	2,293,998	3,059,445	1,818,775	2,663,703
Latin America	292,524	375,688	926,142	2,237,406	2,175,797	1,878,778
Canada	281,477	354,351	409,608	131,809	265,343	200,381
Total International	**$ 10,107,956**	**$ 9,635,339**	**$ 10,676,025**	**$ 12,323,805**	**$ 11,179,625**	**$ 13,408,914**
United States	3,785,621	3,024,650	4,416,666	6,060,556	4,612,126	4,008,944
Total Company	**$ 13,893,577**	**$ 12,659,989**	**$ 15,092,691**	**$ 18,384,361**	**$ 15,791,751**	**$ 17,417,858**

* *Pro forma for (i) the sale of the Japanese non-footwear trademarks and (ii) the Master License, before taxes.*

Total wholesale sales by licensees has grown from $262.4 million in 1995, peaking at $408.1 million in 1996 and gradually decreasing to $301 million in 1998. In comparison to footwear, apparel and accessories have accounted for the majority of these sales during this period. However, royalties are higher for footwear than apparel on a relative basis, as measured by footwear royalty income as a percent of total royalty income.

The number of Licensees, by region, is summarized below. For the purposes of this table, "Miscellaneous" licensees were treated as one licensee.

ACTUAL

# of Licensees by Region	1994	1995	1996	1997	1998	1999
Japan	7	8	10	11	15	14
Southeast Asia	9	9	10	9	8	9
EMEA	20	18	15	15	18	24
Latin America	5	4	6	5	5	5
Canada	6	5	8	4	7	4
Total International	**47**	**44**	**49**	**44**	**53**	**56**
United States	17	17	12	15	13	17
Total Company	**64**	**61**	**61**	**59**	**66**	**73**

PRO FORMA

*# of Licensees by Region**	1994	1995	1996	1997	1998	1999
Japan	1	1	1	1	1	1
Southeast Asia	9	9	10	9	8	9
EMEA	20	18	15	15	18	24
Latin America	5	4	6	5	5	4
Canada	6	5	8	4	7	4
Total International	**41**	**37**	**40**	**34**	**39**	**42**
United States	18	18	13	16	14	18
Total Company	**59**	**55**	**53**	**50**	**53**	**60**

* *Pro forma for (i) the sale of the Japanese non-footwear trademarks and (ii) the Master License, before taxes.*

Historical and Projected Licensing Income by Region, by Licensee

Following is a summary table that indicate the historical and projected licensing income for the Collateral:

ACTUAL

Income by Region	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Japan	$ 6,297,088	$ 9,126,352	$ 15,085,754	$ 7,754,079	$ 8,680,419	$ 8,054,489	$ 4,025,000	$ 4,100,000	$ 4,200,000	$ 4,350,000
Southeast Asia	4,115,277	4,319,669	6,252,277	5,576,969	4,164,851	4,854,021	4,896,000	4,961,000	5,162,800	5,351,690
EMEA	1,627,051	2,093,710	2,293,998	3,059,445	1,818,775	2,663,703	3,598,000	5,047,000	5,256,160	5,409,960
Latin America	292,524	375,688	926,142	2,237,406	2,175,797	1,878,778	1,995,000	1,995,000	2,054,850	2,116,496
Canada	281,477	354,351	409,608	131,809	265,343	200,381	312,000	312,000	321,360	331,001
Total International	**$ 12,613,417**	**$ 16,269,770**	**$ 24,967,779**	**$ 18,759,708**	**$ 17,105,185**	**$ 17,651,372**	**$ 14,826,000**	**$ 16,415,000**	**$ 16,995,170**	**$ 17,559,146**
United States	1,599,086	987,235	2,669,991	3,809,561	3,070,361	2,814,944	3,026,000	3,026,000	3,116,780	3,210,283
Total Company	**$ 14,212,503**	**$ 17,257,005**	**$ 27,637,770**	**$ 22,569,269**	**$ 20,175,546**	**$ 20,466,316**	**$ 17,852,000**	**$ 19,441,000**	**$ 20,111,950**	**$ 20,769,430**

PRO FORMA

*Income by Region**	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Japan	$ 3,791,627	$ 2,491,921	$ 794,000	$ 1,318,176	$ 2,754,859	$ 3,812,031	$ 4,025,000	$ 4,100,000	$ 4,200,000	$ 4,350,000
Southeast Asia	4,115,277	4,319,669	6,252,277	5,576,969	4,164,851	4,854,021	4,896,000	4,961,000	5,162,800	5,351,690
EMEA	1,627,051	2,093,710	2,293,998	3,059,445	1,818,775	2,663,703	3,598,000	5,047,000	5,256,160	5,409,960
Latin America	292,524	375,688	926,142	2,237,406	2,175,797	1,878,778	1,995,000	1,995,000	2,054,850	2,116,496
Canada	281,477	354,351	409,608	131,809	265,343	200,381	312,000	312,000	321,360	331,001
Total International	**$ 10,107,956**	**$ 9,635,339**	**$ 10,676,025**	**$ 12,323,805**	**$ 11,179,625**	**$ 13,408,914**	**$ 14,826,000**	**$ 16,415,000**	**$ 16,995,170**	**$ 17,559,146**
United States	3,785,621	3,024,650	4,416,666	6,060,556	4,612,126	4,008,944	4,147,500	4,052,500	4,220,280	4,396,283
Total Company	**$ 13,893,577**	**$ 12,659,989**	**$ 15,092,691**	**$ 18,384,361**	**$ 15,791,751**	**$ 17,417,858**	**$ 18,973,500**	**$ 20,467,500**	**$ 21,215,450**	**$ 21,955,430**

** Pro forma for (i) the sale of the Japanese non-footwear trademarks and (ii) the Master License, before taxes.*

Following is a summary table that indicate the historical and projected number of licensees:

ACTUAL

# of Licensees by Region	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Japan	7	8	10	11	15	14	1	1	1	1
Southeast Asia	9	9	10	9	8	9	9	9	9	9
EMEA	20	18	15	15	18	24	25	27	27	27
Latin America	5	4	6	5	5	5	5	5	5	5
Canada	6	5	8	4	7	4	4	4	4	4
Total International	**47**	**44**	**49**	**44**	**53**	**56**	**44**	**46**	**46**	**46**
United States	17	17	12	15	13	17	18	18	18	18
Total Company	**64**	**61**	**61**	**59**	**66**	**73**	**62**	**64**	**64**	**64**

PRO FORMA

*# of Licensees by Region**	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Japan	1	1	1	1	1	1	1	1	1	1
Southeast Asia	9	9	10	9	8	9	9	9	9	9
EMEA	20	18	15	15	18	24	25	27	27	27
Latin America	5	4	6	5	5	4	4	4	4	4
Canada	6	5	8	4	7	4	4	4	4	4
Total International	**41**	**37**	**40**	**34**	**39**	**42**	**43**	**45**	**45**	**45**
United States	18	18	13	16	14	18	19	19	19	19
Total Company	**59**	**55**	**53**	**50**	**53**	**60**	**62**	**64**	**64**	**64**

** Pro forma for (i) the sale of the Japanese non-footwear trademarks and (ii) the Master License, before taxes*

In the following tables historical and projected licensing income is detailed by licensee for each region, respectively:

Asia – Pacific Region

Licensee	*HISTORICAL -->* 1994	1995	1996	1997	1998	*PROJECTED->* 1999	2000	2001	2002	2003
Aoyama International	-	-	-	-	36,976	42,457	-	-	-	-
Fukusuke	328,503	246,898	188,360	251,297	291,999	207,419	-	-	-	-
Gunze	179,644	780,988	790,407	814,695	1,042,225	683,555	-	-	-	-
Itochu	$ 1,069,838	$ 4,102,975	$ 12,123,814	$ 3,916,464	$ 2,984,890	1,455,670	-	-	-	-
Kurihara	42,101	81,162	46,704	197,873	124,297	69,549	-	-	-	-
Kusubashi	-	-	1,745	42,374	77,725	126,994	-	-	-	-
La Moda Yoshida	-	114,617	116,954	77,723	52,916	52,271	-	-	-	-
MoonStar	3,791,627	2,491,921	794,000	1,318,176	2,754,859	3,812,031	4,025,000	4,100,000	4,200,000	4,350,000
Orient Watch	-	-	-	-	47,522	32,332	-	-	-	-
Takara	82,597	218,573	392,500	399,707	536,690	741,118	-	-	-	-
Takeda	-	-	-	-	4,407	43,967	-	-	-	-
Tarten	-	-	21,270	18,961	5,146	(1,097)	-	-	-	-
TOA	-	-	-	29,033	36,892	15,709	-	-	-	-
Yorks	-	-	-	-	44,231	31,956	-	-	-	-
Zett	802,778	1,089,218	610,000	687,776	639,644	740,558	-	-	-	-
Sub-Total Japan	6,297,088	9,126,352	15,085,754	7,754,079	8,680,419	8,054,489	4,025,000	4,100,000	4,200,000	4,350,000
Alantic Sports	199,371	314,667	832,292	852,672	440,252	480,923	496,000	496,000	520,800	546,840
Conquest Sports	2,087,842	2,561,316	3,140,534	2,435,282	1,835,686	1,846,886	1,950,000	1,975,000	2,000,000	2,000,000
Constar	118,096	10,105	133,541	(40,000)	-	-	-	-	-	-
Filcon Manufacturing	237,570	333,855	367,369	480,231	350,739	244,140	218,000	218,000	228,900	240,345
Hallway	-	1,712	-	-	-	-	-	-	-	-
Hong Kong	-	-	-	52,060	7,586	-	-	-	-	-
Kumhwa Sports Corp	-	-	108,256	322,415	322,770	684,886	615,000	615,000	645,750	678,038
Piyavat Rubber	225,000	(138,972)	-	-	-	-	-	-	-	-
Pou Chen	-	-	-	(2,307)	-	-	-	-	-	-
Pou Yen	900	-	-	117,030	298,291	-	-	-	-	-
PT Concord	65,791	183,359	195,699	(56,250)	-	-	-	-	-	-
Saner	-	-	17,761	-	-	-	-	-	-	-
Tactic	163,080	517,269	350,460	407,004	276,988	378,984	358,000	358,000	375,900	394,695
Taishoe	1,018,116	535,962	1,062,991	866,225	635,530	819,196	863,000	863,000	906,150	951,458
Technic	(434)	21,305	82,364	153,047	-	286,378	286,000	286,000	300,300	315,315
P.T. Bauna	-	-	-	-	-	75,000	75,000	100,000	125,000	150,000
Aoyama Optical	-	-	-	-	-	38,428	35,000	50,000	60,000	75,000
Miscellaneous	(55)	(20,909)	(38,990)	(10,440)	(2,991)	(800)	-	-	-	-
Sub-Total SE Asia	4,115,277	4,319,669	6,252,277	5,576,969	4,164,851	4,854,021	4,896,000	4,961,000	5,162,800	5,351,690
Total Asia -Pacific	$ 10,412,365	$ 13,446,021	$ 21,338,031	$ 13,331,048	$ 12,845,270	$ 12,908,510	$ 8,921,000	$ 9,061,000	$ 9,362,800	$ 9,701,690

Europe, the Middle East and Africa ("EMEA") Region

	HISTORICAL -->					*PROJECTED->*				
Licensee	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Advanced Distributors	186,624	25,000	(2,974)	-	-	-	-	-	-	-
American Exchange	-	-	-	-	-	-	-	-	-	-
Amersport	-	-	-	51,250	82,251	110,403	101,000	101,000	104,030	107,151
Athanassopoulos	134,092	57,534	179,973	463,088	280,145	177,027	109,000	109,000	112,270	115,638
Benelux *	-	-	-	-	-	-	150,000	352,000	362,560	373,437
Capry	-	-	-	-	30,000	15,000	30,000	30,000	30,900	31,827
Carol Agencies	118,838	130,778	547,717	740,756	391,449	317,983	315,000	315,000	324,450	334,184
CFM International	174,975	269,944	-	-	-	-	-	-	-	-
Conteks	137	40,107	92,389	136,400	64,305	172,844	158,000	158,000	162,740	167,622
Conv Accessories Euro	-	158,000	164,388	-	18,140	79,500	-	-	-	-
Converse Benelux	-	145,403	172,592	-	-	-	-	-	-	-
Converse France	389,435	-	-	-	-	-	-	-	-	-
Copperstore	-	-	61,338	30,670	60,428	-	-	-	-	-
Copywrite Ltd.	30,000	-	-	110,000	(17,190)	(410)	-	-	-	-
Delta Trade	-	54,240	169,430	294,154	155,555	49,175	-	-	-	-
Deres Design	133,327	258,323	53,716	-	-	-	-	-	-	-
Deux Ailes	-	9,375	-	-	-	-	-	-	-	-
Editions	-	30,000	49,599	-	30,043	-	-	-	-	-
European Fashion	-	-	-	-	38,538	75,814	88,000	88,000	90,640	93,359
Fabra	-	-	(37,710)	-	-	-	-	-	-	-
France *	-	-	-	-	-	-	609,000	609,000	627,270	646,088
Germany *	-	-	-	-	-	-	-	524,000	539,720	555,912
Grube	116,341	-	-	-	-	-	-	-	-	-
Infinity	-	-	12,600	117,983	99,348	119,226	118,000	118,000	121,540	125,186
Inversora France	5,534	-	-	-	-	-	-	-	-	-
Italy *	-	-	-	-	-	280,000	571,000	571,000	588,130	605,774
Kego Gmbh	-	-	-	-	-	3,024	5,000	5,000	6,500	8,300
Lex International	-	-	-	-	-	500	-	-	-	-
Malipiero	42,081	14,941	-	-	-	-	-	-	-	-
Mavros	443	17,345	7,200	62,750	39,607	52,386	52,000	52,000	53,560	55,167
Montichelvo Ind	29,081	80,650	55,359	67,750	(14,608)	55,957	55,000	55,000	56,650	58,350
Olympus Bags	36,250	-	-	-	-	-	-	-	-	-
O'Neil Sport	1,268	-	-	-	-	-	-	-	-	-
Ou Mabelle	-	-	-	-	23,065	19,574	19,000	19,000	19,570	20,157
Papeteries Hamelin	-	-	-	-	-	10,000	130,000	150,000	210,000	210,000
Preaction	119,617	172,227	-	19,200	-	-	-	-	-	-
REM (Europe)	-	-	-	-	-	61,000	70,000	70,000	73,000	76,000
Ridgeview Ltd	16,123	8,311	-	-	-	-	-	-	-	-
Scandanavia *	-	-	-	-	-	-	64,000	171,000	176,130	181,414
Slava Precision	-	-	6,000	42,000	39,172	49,980	50,000	50,000	51,500	53,045
Sopotnik	-	-	-	245,125	343,090	340,519	262,000	262,000	269,860	277,956
Sportil *	88,776	619,316	374,207	322,312	(51,386)	523,895	448,000	448,000	461,440	475,283
Stamm Sports - Germa	-	-	-	-	-	8,000	9,000	9,000	9,270	9,548
STC	-	-	-	-	-	27,500	37,000	37,000	38,110	39,253
STR	-	-	-	-	28,112	(14,050)	19,000	19,000	19,570	20,157
Tradeglobe Europe	2,800	-	-	(2,800)	-	-	-	-	-	-
United Kingdom *	-	-	-	-	-	-	-	596,000	613,880	632,296
U.R.S Limited	-	-	-	-	4,300	6,000	9,000	9,000	9,270	9,548
United Sports	1,309	2,216	388,174	358,807	174,411	122,856	120,000	120,000	123,600	127,308
Total EMEA	$ 1,627,051	$ 2,093,710	$ 2,293,998	$ 3,059,445	$ 1,818,775	$ 2,663,703	$ 3,598,000	$ 5,047,000	$ 5,256,160	$ 5,409,960

** Converted from direct operating unit to licensee*

Latin American Region

	HISTORICAL -->					*PROJECTED->*				
Licensee	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
ASCA (Argentina)	-	-	-	-	-	1,030,374	1,150,000	1,150,000	1,184,500	1,220,035
Sportchil/Commercial E	47,884	16,194	11,199	338,047	313,907	177,753	162,000	162,000	166,860	171,866
Conasur (Argentina)	158,076	309,456	698,500	943,154	1,104,974	-	-	-	-	-
Dapol	-	-	-	(3,672)	(4,950)	(672)	-	-	-	-
Deportes Jimmy	-	-	114,030	650,429	464,207	322,240	332,000	332,000	341,960	352,219
Expasa	-	-	-	(2,072)	(4,005)	-	-	-	-	-
Grupo de Mexico	-	-	84,226	253,655	202,512	255,935	256,000	256,000	263,680	271,590
Grupo Estrella	54,564	-	-	-	-	-	-	-	-	-
Impar	-	45,173	8,344	-	-	-	-	-	-	-
Inversora Zona/Sport	6,553	4,865	9,843	57,865	99,152	93,148	95,000	95,000	97,850	100,786
Stanton	25,447	-	-	-	-	-	-	-	-	-
Total Latin America	$ 292,524	$ 375,688	$ 926,142	$ 2,237,406	$ 2,175,797	$ 1,878,778	$ 1,995,000	$ 1,995,000	$ 2,054,850	$ 2,116,496

Canadian Region

Licensee	HISTORICAL --> 1994	1995	1996	1997	1998	PROJECTED-> 1999	2000	2001	2002	2003
Admar	161,152	140,029	150,823	1,582	-	-	-	-	-	-
Converse Canada*	-	-	-	-	-	191,440	303,000	303,000	312,090	321,453
Checkmate Canada	-	-	3,579	-	-	-	-	-	-	-
Covee Canada	-	-	-	-	14,667	-	-	-	-	-
Creations Dina	-	-	19,894	14,266	19,608	-	-	-	-	-
Dales Canada	6,374	-	-	-	-	-	-	-	-	-
Dex Brothers	21,530	4,761	7,317	-	-	-	-	-	-	-
Fionta	64,804	161,666	172,547	163,407	197,213	7,587	7,000	7,000	7,210	7,426
Gina Hosiery	9,215	20,787	22,812	6,420	11,501	650	1,000	1,000	1,030	1,061
Laces (Pro Lace)	-	-	-	-	10,000	-	-	-	-	-
Lufty	-	-	2,711	-	-	-	-	-	-	-
Ruby International	-	-	-	-	7,813	704	1,000	1,000	1,030	1,061
Tradeglobe Canada	18,402	27,108	29,925	(53,866)	4,541	-	-	-	-	-
Total Canada	$ 281,477	$ 354,351	$ 409,608	$ 131,809	$ 265,343	$ 200,381	$ 312,000	$ 312,000	$ 321,360	$ 331,001

** Converted from direct operating unit to licensee*

United States Region

Licensee	HISTORICAL --> 1994	1995	1996	1997	1998	PROJECTED-> 1999	2000	2001	2002	2003
A/S Apparel	77,749	16,800	(4,800)	40,408	-	-	-	-	-	-
Active Apparel	85,217	200,000	65,000	279,783	(17,500)	-	-	-	-	-
American Fashion	-	-	-	-	-	31,251	29,000	29,000	29,870	30,766
Apparel Associates	-	-	-	-	-	75,000	75,000	75,000	77,250	79,568
Bag Bazaar	-	-	-	-	68,180	81,808	83,000	83,000	85,490	88,055
Branded Apparel	-	-	-	7,827	31,308	20,866	40,000	40,000	41,200	42,436
Cassette Duplic	-	2,373	-	-	-	-	-	-	-	-
Checkmate	-	-	30,000	(3,750)	-	-	-	-	-	-
Costacos	4,730	263	(1,298)	-	-	-	-	-	-	-
Covee	-	-	35,000	109,049	65,833	77,193	-	-	-	-
Converse, Inc *	2,186,535	2,037,415	1,746,675	2,250,995	1,541,765	1,194,000	1,121,500	1,026,500	1,103,500	1,186,000
DC Sports	-	-	-	-	-	6,977	20,000	20,000	20,600	21,218
Elegant Headware	-	-	-	-	-	10,106	87,000	87,000	89,610	92,298
Europe Craft	87,999	44,004	(753)	-	-	-	-	-	-	-
Fada	20,000	(2,070)	35,000	79,718	50,000	-	-	-	-	-
Fashion Options	-	-	-	-	-	20,834	28,000	28,000	28,840	29,705
Genender	-	-	-	-	-	21,336	28,000	28,000	28,840	29,705
Genesis	-	196	-	-	-	-	-	-	-	-
Hat Brands	-	48,334	-	-	-	-	-	-	-	-
Hytest	70,001	-	-	-	-	-	-	-	-	-
J.P. Manning (Converse	308,999	160,000	325,000	314,811	290,311	292,696	399,000	399,000	410,970	423,299
Jazzy	-	-	-	-	-	-	-	-	-	-
Monarch Luggage	138,876	120,000	181,185	183,480	122,500	132,800	151,000	151,000	155,530	160,196
Moshay	543,000	114,848	1,400,000	1,365,712	1,420,334	1,312,503	1,313,000	1,313,000	1,352,390	1,392,962
Mountain Lion	-	-	2,500	-	-	-	-	-	-	-
New - BB Sports Equip	-	-	-	-	-	-	-	-	-	-
New - Kids Apparel	-	-	-	-	-	-	-	-	-	-
New - Outerwear - Kids	-	-	-	-	-	-	-	-	-	-
New - Underwear	-	-	-	-	-	-	35,000	35,000	36,050	37,132
New - Watches	-	-	-	-	-	-	4,000	4,000	4,120	4,244
New - Women's Appare	-	-	-	-	-	-	-	-	-	-
Outerstuff	27,500	56,175	(77,500)	-	-	-	-	-	-	-
Phadz	-	-	-	1,176	7,056	1,768	2,000	2,000	2,060	2,122
Planet Hollywood	-	-	-	99,179	97,261	95,835	75,000	75,000	77,250	79,568
Prime Time	34,001	9,900	(20,650)	(5)	-	-	-	-	-	-
ProLace	-	-	-	-	-	80,000	-	-	-	-
Rags	(56,241)	-	-	-	-	-	-	-	-	-
REM Optical	106,303	83,483	331,000	405,889	336,815	238,232	270,000	270,000	278,100	286,443
Salem Sportswear	1,241	-	(8,319)	-	-	-	-	-	-	-
Shalom	15,999	66,000	370,000	566,029	313,219	(10,662)	-	-	-	-
SKL Industries	30,710	13,500	(18,511)	-	-	-	-	-	-	-
Tradeglobe Domestic	102,802	46,341	16,837	177,771	28,386	(18,119)	-	-	-	-
Warson	-	-	-	182,284	256,658	344,520	347,000	347,000	357,410	368,132
Miscellaneous	200	7,088	10,300	200	-	-	40,000	40,000	41,200	42,436
Total United States	$ 3,785,621	$ 3,024,650	$ 4,416,666	$ 6,060,556	$ 4,612,126	$ 4,008,944	$ 4,147,500	$ 4,052,500	$ 4,220,280	$ 4,396,283

** Proforma for the Master License royalties (NOTE no royalty payment required during first 30 months of transaction, all UCC cash flow models hereafter reflect this)*

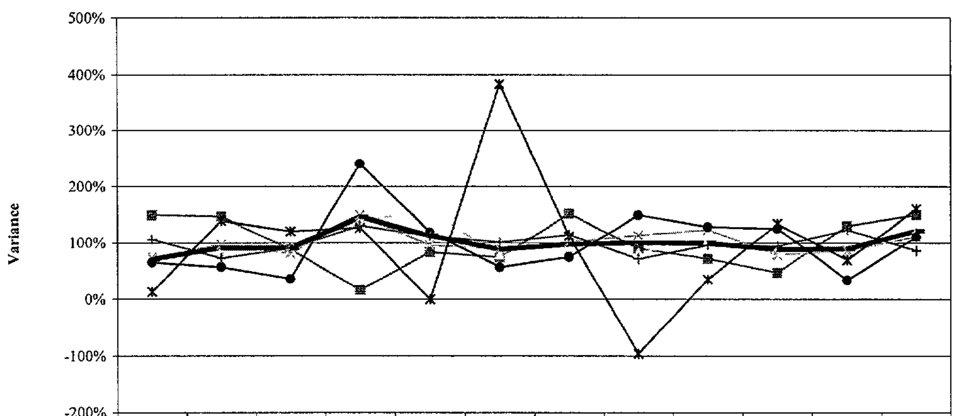
Miscellaneous Collateral Characteristics

The data provided below is reported on an actual basis, to further illustrate the dynamics of the Company's licensing operations and provide some insight into the Company's management of the licensing operations.

Seasonality

Below is chart of Converse's seasonality with regards to licensing income, pro forma for the sale of the Japan non-footwear trademarks. As indicated in the charts, on an aggregate, quarter-to-quarter basis, Converse's seasonality is not varied enough to require a structural change in the transaction.

Quarterly Seasonality



	Q1-96	Q2-96	Q3-96	Q4-96	Q1-97	Q2-97	Q3-97	Q4-97	Q1-98	Q2-98	Q3-98	Q4-98
JAPAN	149%	146%	88%	17%	83%	75%	152%	90%	72%	48%	130%	149%
SOUTHEAST ASIA	86%	85%	88%	141%	154%	79%	84%	82%	105%	89%	85%	121%
EMEA	73%	97%	82%	149%	96%	90%	101%	114%	123%	79%	87%	111%
CANADA	14%	139%	121%	127%	0%	384%	112%	-96%	36%	134%	70%	160%
LATIN	65%	58%	37%	240%	119%	57%	75%	149%	129%	126%	35%	111%
USA	106%	73%	90%	131%	112%	101%	115%	71%	96%	94%	123%	86%
TOTAL	71%	91%	91%	146%	113%	89%	98%	101%	100%	88%	90%	122%

Age of Licensee Relationships

Below is a chart that indicates the age and distribution of the licensee relationships that Converse had as of year-end 1998:

Age of Licensee Relationship	Total	Asia - Pacific	EMEA	Americas	Canada	USA
> 15 years	9	4	3	1	-	1
10 - 15 years	4	1	2	1	-	-
7 - 10 years	3	-	-	2	-	1
5 - 7 years	16	10	2	-	1	3
3 - 5 years	13	5	4	-	2	2
2 - 3 years	9	2	4	-	-	3
1 - 2 years	9	1	4	-	2	2
0 - 1 year	3	-	1	1	-	1
Total	**66**	**23**	**20**	**5**	**5**	**13**
Average Age:	**8.94**					
Weighted Average Age ('98):	**7.09**					

This chart illustrates the strategic history and trends with regards to Converse's territorial expansion over the years.

Licensee Income & Number of Licensees, by Region

Below is a chart that disaggregates Converse's actual, reported Licensing Income for 1998, by product category and region.

Licensing income	Total	Asia - Pacific	EMEA	Americas	Canada	USA
Footwear	9,776,400	6,484,600	1,226,100	2,065,700	-	-
Apparel & Accessories	10,399,146	6,360,670	592,675	110,097	265,343	3,070,361
Total Licensing Income - 1998	**20,175,546**	**12,845,270**	**1,818,775**	**2,175,797**	**265,343**	**3,070,361**
Licensees						
Footwear	28	8	14	5	1	-
Apparel & Accessories	63	24	17	5	4	13
Total Licensees - 1998	**91**	**32**	**31**	**10**	**5**	**13**

Contractual Brand Equity Support

Converse's licensees are required to spend a percent of sales for marketing and advertising of the brand. The average required advertising rate is 5% of net sales.

Contracted Brand Equity Support	1999	2000	2001	2002	2003
Required Advertising (by Licensees)	$ 3,497,171	$ 3,497,171	$ 3,497,171	$ 3,643,796	$ 3,796,905

Distribution Strategy – Reported Net Sales

The Company's products are distributed in over 90 countries to approximately 6,000 retail customers, 2,500 of which are located in the United States. These include specialty athletic, sporting goods, department and traditional shoe stores, as well as 27 Company-operated retail outlet stores.

Below is a chart that summarizes Converse's top twenty customers for 1998, with each customer's footwear purchase volumes for the prior two years. Converse has indicated that the distribution of Converse's footwear is similar to that of the licensed non-footwear products. As such, this chart can be used to approximate the customer base for Converse licensed products.

1998 Top 20 Customers (000's)			
	Dollars Shipped		
Customer	1998	1997	1996
Moonstar	$ 60,461.70	$ 62,617.60	$ 23,396.00
Sears Roebuck	9,689.30	14,065.80	10,295.40
Footlocker/Venator	8,093.30	17,654.60	7,098.30
Just for Feet	7,999.20	8,549.80	2,363.60
Brown Group/Famous Ftwr	6,897.10	6,395.60	9,184.10
Converse S. Africa Ptyltd	6,389.70	5,369.40	2,129.00
Kohl's Dept Store	5,661.10	7,117.50	4,757 50
Montgomery Ward	3,777.90	3,482 40	3,184.60
Shoe Carnival	3,670.60	6,012.50	3,734.50
JC Penney	3,287.70	7,884.50	10,005.90
Casablanca Clothing	3,276.80	1,468.50	949.50
Pepes Casuals	2,760.60	1,130.90	458.20
Weiner's Stores	2,602.10	2,754.10	1,279.30
Meijer Inc.	2,557.20	2,483.00	2,435.30
Modells Inc.	2,326.90	2,073.40	1,242.80
The Sports Authority	2,263.40	3,354.60	2,556.70
Academy Corp	1,997.50	1,823.50	631.50
Shonac Corp	1,915.30	1,613.40	1,125.70
United Merchandise	1,908.20	3,207.80	1,551.20
Sopotnik Trade	1,878.80	1,149.70	2,901.00
Total - Top 20 of 1998	$ 139,414.4	$ 160,208.6	$ 91,280.1
Other	$ 168,938.6	$ 289,990.4	$ 258,054.9
Net Sales	$ 308,353.0	$ 450,199.0	$ 349,335.0

Types of License Agreements

Below is a summary of the types of licensing agreements currently signed by Converse, by region.

Type of License	Total	Asia - Pacific	EMEA	Americas	Canada	USA
Manufacturing, Distribution & License Agr	31	8	17	5	1	-
Distributorship Agreement	3	-	2	1	-	-
Trademark License Agreement	21	2	4	-	3	12
Import & License Agreement	1	1	-	-	-	-
Marketing Agreement	1	-	-	-	-	1
Total	**57**	**11**	**23**	**6**	**4**	**13**

License Concentration

Historically, licensees have been concentrated in the Asia-Pacific Region area, primarily Japan. However, with Converse's recent sale of the Japanese non-footwear trademarks, this concentration risk has been dissipated, leaving Converse's licensees more evenly dispersed across geographic regions.

As well, in 1998 the top 10 licensees accounted for 66.5% of total royalty income. Four of those licensees were Japanese apparel. By eliminating these four licensees, Converse's royalty income will no longer be as dependent on the Japanese market and economy.

The following table lists the top 10 licensees, based on royalty income, in 1998:

Top 10 Licensees	**Category**	**Country**	**1998 Royalty Income**	**Percent of Total**	**Cumulative Percent of Total**
Itochu Fashion	Casual Wear, accessories	Japan	$ 2,985	14 80%	14 80%
Moonstar	Footwear	Japan	2,755	13 66%	28 45%
Conquest Sports	Athletic Footwear, athletic activewear, accessories	Australia/New Zealand	1,836	9 10%	37 55%
Moshay	Athletic activewear	USA	1,420	7 04%	44 59%
Conasur	Athletic & leisure footwear, casual wear, accessories	Argentina	1,105	5 48%	50 07%
Gunze	Men's underwear, casual wear, infant wear	Japan	1,042	5 16%	55 23%
Zett	Athletic activewear	Japan	640	3 17%	58 40%
Taishoe	Athletic & leisure footwear, activewear, accessories	Taiwan	636	3 15%	61 56%
Takara	Swimwear	Japan	537	2 66%	64 22%
Deportes, J	Athletic & leisure footwear, activewear, accessories	Latin America	464	2 30%	66 52%
All Other			6,755	33 48%	100 00%
Total (All Licensees)			**$ 20,175**	**100.00%**	**100.00%**

The following table lists the top 10 licensees, based on royalty income, in 1999 (Pro forma for (i) the sale of the Japanese non-footwear trademarks and (ii) the Master License, before tax withholdings):

Top 10 Licensees	**Category**	**Country**	**1999 Royalty Income**	**Percent of Total**	**Cumulative Percent of Total**
Moon-Star	Athletic & leisure footwear	Japan	$ 3,812	21.89%	21 89%
Conquest Sports	Athletic footwear, athletic activewear, accessories	Australia/New Zealand	1,847	10.60%	32.49%
Moshay	Athletic activewear	U.S.A.	1,313	7.54%	40.03%
Alpargatas Calzados	Athletic & leisure footwear, casual wear, accessories	Argentina/Uruguay	1,030	5.91%	45.94%
Taishoe	Athletic & leisure footwear, activewear, accessories	Taiwan	819	4.70%	50.64%
Spris (Kumhwa)	Athletic & leisure footwear, activewear, accessories	South Korea	685	3.93%	54 58%
Sportil, S.A.	Athletic & leisure footwear, activewear, accessories	Spain/Portugal	524	3.01%	57.58%
Alantic Sports	Athletic & leisure footwear, activewear, accessories	Singapore/Malaysia	481	2 76%	60.35%
Tactic Marketing	Athletic & leisure footwear, activewear	Thailand	379	2 18%	62.52%
Warson Group	Athletic occupational footwear	U.S.A.	345	1 98%	64.50%
All Other			6,183	35.50%	100 00%
Total (All Licensees)			**$ 17,418**	**100.00%**	**100.00%**

International Tax Withholdings

Converse collects license income from companies throughout the world, subject to local withholding taxes. As a matter of common business practice, these taxes are withheld upon payment from the licensee, thereby lowering the net cash which would be flowing through the transaction Lockbox. Below is a table summarizing the current tax withholding rates for each country and Converse's weighted average withholding tax rate based on 1998 licensing income:

Converse Worldwide Licensee Sales
Licensee Income for Year Ended 1998

Country	1998 Pro forma Licensee Income (in 000's)	% of Total	Cumulative Total	Sovereign Rating (M/S/D/F)	Withholding Tax Rate	Weighted Withholding Tax Rate
Japan*	2,754.86	17.44%	17.44%	Aa1/AAA/AAA/AA+	10.0%	1.74%
United States**	4,612.13	29.21%	46.65%	Aaa/AAA/AAA/AAA	n/a	0.00%
Australia	1,835.70	11.62%	58.28%	Aa2/AA/---/AA	10.0%	1.16%
Argentina	1,101.00	6.97%	65.25%	Ba3/BB/BB/BB	26.4%	1 84%
Taiwan	635.50	4.02%	69.27%	Aa3/AA+/---/---	20.0%	0.80%
Panama	459.30	2.91%	72.18%	Ba1/BB+/---/BB+	30.0%	0.87%
Singapore	440.30	2.79%	74.97%	Aa1/AAA/AAA/AA+	15.0%	0.42%
South Africa	391.40	2.48%	77.45%	Baa3/BB+/BBB-/BB	12.0%	0.30%
Slovenia	371.20	2.35%	79.80%	A3/A/---/A-	25.0%	0.59%
Philippines	350.70	2.22%	82.02%	Ba1/BB+/BB+/---	25.0%	0.56%
Korea	322.80	2.04%	84.06%	Baa3/BBB-/BB+/BBB-	15.0%	0.31%
Chile	313.90	1.99%	86.05%	Baa1/A-/A-/A-	30.0%	0.60%
China	305.90	1.94%	87.99%	A3/BBB+/NR/A-	20.0%	0.39%
Greece	280.10	1.77%	89.76%	Baa1/BBB/---/BBB	20.0%	0.35%
Thailand	276.90	1.75%	91.51%	Ba1/BBB/BB+/BB+	15.0%	0.26%
Canada	265.30	1.68%	93.19%	Aa2/AA+/---/AA	10.0%	0.17%
Mexico	202.50	1.28%	94.48%	Ba2/BB/BB+/BB	10.0%	0.13%
Israel	174.40	1.10%	95.58%	A3/A-/---/A-	15.0%	0.17%
UAE	155.60	0.99%	96.57%	n/a	n/a	0.00%
Hungary	99.30	0.63%	97.19%	Baa2/BBB/BBB/BBB	15.0%	0.09%
Venezuela	99.20	0.63%	97.82%	B2/B+/B+/BB-	n/a	0.00%
Poland	82.30	0.52%	98.34%	Baa3/BBB-/---/BB+	10.0%	0.05%
Turkey	64.30	0.41%	98.75%	B1/B/BB-/B+	22.0%	0.09%
North Africa	60.40	0.38%	99.13%	n/a	n/a	0.00%
Cyprus	39.60	0.25%	99.38%	A2/A+/---/---	0.0%	0.00%
Yugoslavia	39.20	0.25%	99.63%	n/a	20.0%	0.05%
Holland	38.50	0.24%	99.88%	Aaa/AAA/AAA/AAA	n/a	0.00%
Belgium	30.00	0.19%	100.07%	Aa1/AA+/AA+/AA-	n/a	0.00%
Benelux	30.00	0.19%	100.26%	n/a	n/a	0.00%
Estonia	23.10	0.15%	100.40%	Baa1/BBB+/---/BBB	15.0%	0.02%
Malta	4.30	0.03%	100.43%	A3/A/---/A-	n/a	0.00%
Misc. Adjustment	(67.93)	-0.43%	100.00%			0.00%
Grand License Income	**$ 15,791.76**	**100.00%**				**10.96%**
Less: 11% average tax	(1,737.09)					
Net License Cash Flow	**$ 14,054.66**					

** Pro forma for the sale of the Japan non-footwear license*

Japan Licensing Revenue ('98 Actual)	$8,680,419
Japan Non-footwear Licensing Revenue	(5,925,560)
Pro forma	$2,754,859

*** Pro forma for the U S Master License to Converse, Inc.*

U.S. Licensing Revenue ('98 Actual)	$ 3,070,361
Master License to Converse, Inc.	1,541,765
Pro forma	$ 4,612,126

In underwriting this transaction, the Lender adjusted all reported and projected revenues down by 11% to represent the cash effect of tax withholdings. Below is a table presenting the pro forma historical licensing cash flow. Refer to the projection models herein for future cash flow levels.

	1994	1995	1996	1997	1998
Reported Net Sales (Converse, Inc.)	437,307	407,483	349,335	450,199	308,353
Reported Licensing Income*	11,707	10,623	13,346	16,133	14,250
Master License Income Adjustment	2,187	2,037	1,747	2,251	1,542
Sub-total	**13,894**	**12,660**	**15,093**	**18,384**	**15,792**
LESS: Ave. Foreign Tax Provision (11%)	(1,528)	(1,393)	(1,660)	(2,022)	(1,737)
Net Pro forma Licensing Cash Flow	**12,366**	**11,267**	**13,433**	**16,362**	**14,055**

**Pro forma for the sale of Japan non-footwear licenses*

Summary of Key Licenses

Following is a chart summarizing the Borrower's key licensees, with short business synopsis. Licensing income is compared to Pro forma 1998 Licensing Income (adjusted for sale of Japanese non-footwear trademarks and Master License):

LICENSEE SUMMARY-KEY LICENSE RELATIONSHIPS

Region	Licensee	1998 Licensee Income	% 1998 License Income	Business Narrative
JAPAN	Moon-Star Chemical Corp. (Japan)	2,754,859	17.4%	Moon-Star was established on October 20, 1873, as a privately held company. Moon-Star's relationship with Converse began in 1980 and they are the largest footwear business partner of Converse worldwide. Total number of employees is approximately 2,200 and annual sales are approximately 57 billion yen. Their Converse business is approximately 30% of their total business. The contract was renewed in 1999 for an additional 5 years and will expire on June 30, 2004.
SOUTHEAST ASIA	Conquest Sports (Australia/New Zealand)	1,835,686	11.6%	Conquest became a Converse licensee in the countries of Australia and New Zealand during 1989. The company is a private partnership between Ken Biddick and Harold and Betty Weedon, with Mr. Biddick assuming the responsibility for running the day to day operations of the company. Converse is the largest brand that Conquest represents and generates approximately 75% of the company's annual revenue. This license has recently been renewed for an additional 5 years and will now expire on December 31, 2003.
	Taishoe (Taiwan)	635,530	4.0%	The company was formed in 1977 and is jointly owned by Mr. and Mrs. Hau. Taishoe was appointed as the Taiwan Converse licensee in August 1993. There are four Converse concept stores, two in Taipei and one in Kaoshiung and Taichung. Taishoe has other business interests, however, Converse currently represents 23% of their total business.
	Alantic Sports (Singapore)	440,252	2.8%	The company was incorporated in Singapore on June 5, 1990. Gary Gan and his family are the principle shareholders. They have solely distributed Converse footwear and non-footwear products since February 1, 1993. Currently, Alantic supplies all major retailers and manages seven Converse concept stores in Singapore and one in Malaysia
	Filcon Manufacturing (Philippines)	350,739	2.2%	The company was established on August 10, 1983 and appointed as the Converse licensee in 1989. Ramon Ong is the major shareholder of the company which is privately held with his other business partners. Converse is the only sports brand that is distributed by Filcon. The first Converse retail store was opened in November 1998, and licensee has strategic plans to develop Converse's footwear business beyond the basketball and canvas categories.

LICENSEE SUMMARY-KEY LICENSE RELATIONSHIPS (cont.)

Region	Licensee	1998 Licensee Income	% 1998 License Income	Business Narrative
	Tactic (formerly Piyavat Rubber Industry Co.) (Thailand)	276,988	1.8%	Piyavat Rubber was established on May 11, 1984 and is part of the large Wongpaitoonpiya financial group. Family owned and operated, the group has a variety of interests. They also manufacture as a contract factory for other third-party athletic footwear companies. They are also the "Athlete's Foot" franchisee for Thailand. In 1994, the Converse activities of Piyavat were transfered to a wolly-owned subsidiary named Tactic Marketing Co., Ltd. All of Tactic's obligations within the license are guaranteed by the parent company. Suthep Wongpaitoonpiya is the Managing Director and family representative of Tactic's business. Presently, there are five Converse concept stores and an additional seven were scheduled to open in 1999.
	Spris Corporation (formerly Kumhwa Sports) (South Korea)	322,770	2.0%	Kumhwa is part of a family-owned private company (Kumkang Shoe Manufacturing Co.) and was organized in February of 1995. Their annual sales are approximately $7.5 million of which 80% is generated from Converse branded products (both footwear and activewear). Kumhwa is a distributor/licensee for Saucony, Kika and Kelly Hansen products as well as Converse branded products.
	Technic Holdings Corp., (formerly Pou Yen) (China)	298,291	1.9%	Technic Holdings Corp. is a wholly owned subsidiary of Pou Yen Industrial Holdings Corp., who is a wholly owned subsidiary of Pou Chen Footwear Co. Technic has been in business for 6 years and has approximately 200 employees. Their annual sales are approximately $8 million (at wholesale) of which 75% is generated from Converse branded products. Technic also manufactures and distributes its own "in-house" brand of footwear known as "Niche".
EMEA	Converse South Africa (formerly Carol Agencies) (South Africa)	391,499	2.5%	Carol Agencies has been Converse's distributor since October 1983. The company was taken over by LA Retail Stores Limited in 1998. This is a publicly quoted company with business interests including fashion retail, workwear manufacturing and certain fashion brands including the license of the Polo name in South Africa and a local brand, Canary Island.
	Athanassapoulos (Greece)	280,145	1.8%	Converse's distributor since 1989 and prior to that was an adidas distributor. Just acquired rights to a Spanish brand, Coronel Tapioca. Converse is approximately 40% of the company's total business.
	United Sports (Israel)	174,411	1.1%	Owned and operated by Shalom Molrov who bought out the previous owners in 1996. Converse distributor since the 1980's and Converse represents 100% of the company's total business. [Note: This licensee was terminated in 1998 and replaced by M.G.S. Sports Trading Ltd. with a 2-year agreement for the territories of Israel, West Bank, etc. expiring on Dec. 31, 2000].
	Sportil (Spain)	New Licensee	New Licensee	Sportil is a private shareholder company based in Northern Spain (Victoria). They have been involved with Converse since the early 1980's, first as exclusive distributors, then as service agreement partners and, as of January 1, 1999, as a licensee for the Iberian region. The Converse brand is approximately 70% of their total business portfolio as a licensee.

LICENSEE SUMMARY-KEY LICENSE RELATIONSHIPS (cont.)				
Region	**Licensee**	**1998 Licensee Income**	**% 1998 License Income**	**Business Narrative**
	Delta Trade (Middle East)	155,555	1.0%	Part of Alphamed group in the Middle East which is a large company with interests in pharmaceuticals and stationery as well as sportswear. Company is owned and operated by the Khayyat family. [*Note: This licensee was terminated in 1999 and Converse is currently in negotiations with a replacement licensee.*]
	Sopotnik (Slovenia, Croatia, etc.)	343,090	2.2%	Converse distributor since 1995. Privately held company owned by Stojan Sopotnik. They do not distribute any other footwear brands.
	Infinity Sport (Hungary)	99,348	0.6%	Infinity is a privately held company that has been in business for 6 years. Their average annual revenues are approximately $4.5 million of which 35% is generated from Converse branded products. The company has 15 employees and they are a licensee/distributor for other footwear brands as well as Converse.
LATIN AMERICA	Deportes Jimmy (Panama)	464,207	2.9%	Deportes Jimmy has been associated with Converse since 1974. They are a privately held company that has been in business for 30 years. They distribute other product lines as well as a private label sporting goods brand. Their annual sales are approximately $17 million, of which Converse products represent 55% of that total. This license has recently been extended for an additional 4 years, expiring in 2002.
	Commercial E(Sportchil) (Chile)	313,907	2.0%	CommercialE/Sportchil has been affiliated with Converse since 1988. They are a privately held company that has been in business for 10 years. Their annual sales are approximately $5 million, of which 98% relates to Converse branded products. This license has recently been renewed for an additional 3 years and will expire in 2002.
	Grupo Converse de Mexico (Mexico)	202,512	1.3%	Grupo Converse has been in business for 15 years and affiliated with Converse Inc. since 1992. They are a privately held Company managed by owners Jose and Elias Zaga. They also distribute other footwear and apparel in Mexico. Their annual sales are between approximately $10 to $15 million, of which Converse products represent 40% of these revenues.
	Alpargatas Calzados (Argentina)	New Licensee	New Licensee	Alpargatas is a publicly traded company that has been in business for approximately 100 years. It is the oldest manufacturer of footwear products in Argentina. Their annual revenues range between $400 and $500 million, and since the license was only entered into during the latter part of 1998, the Converse brand percentage of these sales is relatively small to date. Converse has a 5-year agreement with Alpargatas which will expire on May 31, 2003.

LICENSEE SUMMARY-KEY LICENSE RELATIONSHIPS (cont.)				
Region	**Licensee**	**1998 Licensee Income**	**% 1998 License Income**	**Business Narrative**
U.S.A.	Moshay/A4 (United States)	1,420,334	9.0%	Moshay has been the exclusive Converse U.S. licensee for men's, young men's and boy's apparel since 1992. This Los Angeles based company is owned by Mark Mertens and John Moshay, Sr. They have various other licensed brands, however Converse represents the majority of their business. The company's strength is in the athletic activewear category. Total company sales exceed $30 million on an annual basis.
	Shalom Baby Wear (United States)	313,219	2.0%	Shalom Baby Wear has been in business since the 1930's and was the exclusive U.S. licensee for Converse branded infant and toddler apparel since 1994. [*Note: This license was terminated in February of 1999. It has been replaced by a 3½-year agreement with Apparel Associates, a New York based company, as of April 1, 1999.*]
	REM Optical (United States)	336,815	2.1%	REM Optical, based in Los Angeles, has been the Converse eyewear licensee for over ten years, with sales in the U.S. and throughout Europe. They concentrate in the ophthalmic frame business selling to retailers on a direct basis and through distributors. The company is owned by Mike Hundert and his sister, Donna Gindy, and has been in the Hundert family for over forty years. Other eyewear licenses held by REM include Lauren Hutton, Esquire and Cosmopolitan.
	Converse Accessories (United States)	290,311	1.8%	Converse Accessories has been the Converse sock licensee in the U.S. for over twenty years, and was recently granted the license for sock sales in Europe. Although still based in New York, the company, along with its parent company (Auburn Mills) was sold to Gerber Childrenswear, Inc. in 1997; the key Converse management was retained.
	Monarch Luggage (United States)	122,500	0.8%	Monarch, located in Manhattan, is the exclusive Converse brand licensee for bags. This privately held company is owned by the Fried and Schwartz families and has been in business since 1946. Their growth patterns have been excellent with sales in excess of $75 million per year. To support this growth, the company employs approximately 100 people, which is mainly comprised of their warehouse workers.
	The Warson Group (United States)	256,658	1.6%	Warson is a privately held subchapter S company located in St. Louis, Mo., and serves as the U.S. steel-toed safety shoe licensee for the Converse brand. It was founded 10 years ago and realized approximately $7 million in overall sales for 1998. These sales are supported by a staff of 13 people and Warson also owns the Rucks and Footflex brand names in the safety shoe category. Approximately 60% of their business is Converse related.
	TOTAL	**12,079,626**	**76.4%**	

For a summary of the terms of all of Converse's current licenses, see Appendix B.

Status of License Renewals

Because Converse's licensees have a significant amount of capital invested in designing, manufacturing and marketing the Converse trademark, they are extremely likely to continue renewing their licensing agreements with Converse. Converse has demonstrated a long history of managing licensee renewals effectively.

The following table represents the number of licensing agreements that are set to expire or have expired during 1999-2000 and the status of renewal negotiations (renewed, to be renewed, replacement or termination).

Region	# of Licenses Expiring in 1999	Renewed	To be Renewed	Replaced	Terminated
Japan	-	-	-	-	-
Southeast Asia	3	1	2	-	-
EMEA	8	-	8	-	-
Latin America	1	1	-	-	-
USA	5	-	-	4	1
Canada	1	-	-	1	-
TOTAL	**18**	**2**	**10**	**5**	**1**

Region	# of Licenses Expiring in 2000	Renewed	To be Renewed	Replaced	Terminated
Japan	-	-	-	-	-
Southeast Asia	2	-	2	-	-
EMEA	4	-	4	-	-
Latin America	-	-	-	-	-
USA	4	1	3	-	-
Canada	2	-	2	-	-
TOTAL	**12**	**1**	**11**	-	-

The following table represents the number of licensing agreements that are due to expire through the next 5 years.

	# of Licenses Expiring in						
Region	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**TOTAL**
Japan	-	-	-	-	1	-	1
Southeast Asia	2	2	2	2	-	-	8
EMEA	4	7	2	2	-	-	15
Latin America	-	2	2	1	-	-	5
USA	4	2	5	1	-	-	12
Canada	2	1	-	-	1	-	4
TOTAL	**12**	**14**	**11**	**6**	**2**	-	**45**

Following is a table detailing the individual licensees with agreements that are set to expire or have expired in 1999-2000. Licensing income is compared to Pro forma 1998 Licensing Income (adjusted for Japan non-footwear trademarks and Master License):

LICENSEE SUMMARY-AGREEMENTS WITH EXPIRATION DATES IN 1999 & 2000

Region	Licensee	Country	1998 License Income	% 1998 Pro forma License Income	Expiration Date	Status of Renewal Negotiations
Southeast Asia	Taishoe	Taiwan	635,530	4.02%	12/31/99	License will be renewed. Terms of the renewal are expected to be similar to current License (rate = 7.0% x Net Sales for footwear with annual minimums of approx $550,000 (U.S.) per year and 7.5% x Net Sales for activewear with annual minimums of approximately $200,000 (U.S.) per year).
	Kumhwa Sports (Activewear)	So. Korea	322,770	2.04%	7/31/99	License has been extended for 2 months while terms are being negotiated for additional years. Terms of the renewal are expected to be similar to current License (rate = 5.0% x Net Sales and annual minimums of approx. $70,000 (U.S.) per year).
	Kumhwa Sports (Footwear)	So. Korea	Same as above	Same as above	11/30/00	License will be renewed for an additional 5 years. Terms of the renewal are expected to be similar to current License (rate = 7.0% x Net Sales with annual minimums of approx. $800,000 (U.S.) per year).
	Tactic Marketing	Thailand	276,988	1.75%	12/31/00	License will be renewed for an additional 3 years. Terms of the renewal are expected to be similar to the current License (rate = 8.0% x Net Sales for footwear with annual minimums of approx. 10 million(Baht) per year -and- 6.5% x Net Sales for activewear with annual minimums of approx. 2.5 million(Baht) per year).
E.M.E.A.	S.T.R. (Footwear)	Russia, Ukraine, Belarus	28,112	0.18%	12/31/99	License will be renewed. Terms of the renewal are expected to be revised to an FOB-based rate (12.5% to 17.5%) for 3 years with annual minimums of approx. $70,000 (U.S.) per year).
	S.T.R. (Non-Footwear)	Russia, Ukraine, Belarus	Same as above	Same as above	12/31/99	License will be renewed. Terms of the renewal are expected to be similar to current License (rate = 8.0% x Net Sales with annual minimums of approx. $14,000 (U.S.) per year, for 3 years).
	U.R.S. Limited	Malta	4,300	0.03%	12/31/99	License will be renewed. Terms of the renewal are expected to be similar to current license (rate = 8.0% x Net Sales with minimums of approx. $6,000 (U.S.) per year).
	Amersport	Poland	82,251	0.52%	12/31/99	License will be renewed for an additional 3 years. Terms of the renewal are expected to be similar to the current License (rate = 9 75% x Net Sales for footwear with annual minimums of approx $115,000 (U.S.) per year -and- 8% x Net Sales for activewear with annual minimums of approx. $10,000 (U.S.) per year).
	Infinity Sports KFT	Hungary	99,348	0.63%	12/31/99	License will be renewed for an additional 2 years. Terms of the renewal are expected to be similar to the current License (rate = 9.75% x Net Sales for footwear with annual minimums of approx. $125,000 (U.S.) per year -and- 8.0% x Net Sales for activewear with annual minimums of approx. $15,000 (U.S.) per year).
	Mavros Limited	Cyprus	39,607	0.25%	12/31/99	License will be renewed for an additional 3 years. Terms of the renewal are expected to be similar to the current License (rate = 25% x FOB Cost for footwear with annual minimums of approx. $25,000 (U.S) per year -and- 6.9% x Net Sales for activewear with annual minimums of $5,400 (U.S.) per year).
	Sopotnik Trade (Footwear)	Slovenia, Croatia, etc.	343,090	2.17%	12/31/99	License will be renewed for an additional 3 years. Terms of the renewal are expected to be similar to the current License (rate = 25% x FOB Cost for footwear with annual minimums of approx $110,000 (U.S.) per year -and- 8% x Net Sales for activewear with annual minimums of $15,000 (U.S.) per year).
	Sopotnik Trade (Activewear)	Slovenia, Croatia, etc.	Same as above	Same as above	12/31/99	License will be renewed. Terms of the renewal are expected to be similar to current License (rate = 8.0% x Net Sales with minimums of approx. $50,000 (U.S.) per year).

LICENSEE SUMMARY-AGREEMENTS WITH EXPIRATION DATES IN 1999 & 2000						
Region	Licensee	Country	1998 License Income	% 1998 Pro forma License Income	Expiration Date	Status of Renewal Negotiations
	Athanassopoulos Abee.	Greece	280,145	1.77%	12/31/00	License will be renewed for an additional 3 years. Terms of the renewal are expected to be similar to the current License (rate = 25% x FOB Cost for footwear with annual minimums of approx. $150,000 (U.S.) per year -and- 8.0% x Net Sales for activewear with annual minimums of $50,000 (U.S.) per year).
	Ou Mabelle Sport	Estonia, Latvia & Lithuania	23,065	0.15%	12/31/00	License will be renewed. Terms of the renewal are expected to be similar to current License (rate = 8.0% x Net Sales with minimums of approx. $17,500 (U.S.) per year).
	M.G.S. Sports Trading	Israel and the West Bank	174,411	1.10%	12/31/00	License will be renewed. Terms of the renewal are expected to be similar to the current License (rate = 7.0% x Net Sales for footwear with annual minimums of approx. $90,000 (U.S.) per year -and- 7.5% x Net Sales for activewear with annual minimums of $50,000 (U.S.) per year).
U.S.A.	Covee	U.S.A	65,833	0.42%	9/30/99	This license will be allowed to expire. Negotiations are underway with a new Licensee and the terms are expected to be similar to the current License (rate = 7.0% Net Sales) with a slight reduction in annual minimums.
	Active Apparel Group	U.S.A	17,500	0.11%	3/31/99	License was allowed to expire. Licensee was replaced by Fashion Options, Inc. with a 3-yr. License expiring on 9/30/02. Terms of this License are: rate = 7.0% x Net Sales with annual minimums ranging from $35,000 (U.S.) to $75,000 (U.S.) for the 3 year period.
	Phadz	U.S.A	7,056	0.04%	N/A	License was terminated on April 22, 1999 due to late payments of royalties. Converse is currently seeking a new Licensee for this product (pad locks) to replace this Licensee.
	Shalom BabyWear	U.S.A	313,219	1.98%	N/A	License was terminated on April 22, 1999 at the Licensee's request. Licensee was replaced by Apparel Associates with a 3-yr. License expiring on 12/31/02. Terms of this License are: rate = 7.0% x Net Sales with annual minimums ranging from $175,000 (U.S.) to $385,000 (U.S.) for the 3 year period.
	TradeGlobe	U.S.A	28,386	0.18%	N/A	License was terminated in 1999 due to late payment of royalties. Licensee was replaced by DC Sports with a 3-yr. License expiring on 9/30/02. Terms of this license are: rate = 7.0% x Net Sales with annual minimums of approx. $10,000 (U.S.) per year.
	Bag Bazaar	U.S.A.	68,180	0.43%	12/31/00	License will be renewed for an additional 3 years. Terms of the renewal are expected to be similar to current License (rate = 10.0% x Net Sales with annual minimums of approx. $300,000 (U.S.) per year).
	Monarch Luggage Co.	U.S.A.	122,500	0.78%	12/31/00	Negotiations are currently on-going with this Licensee. If Licensee does not agree to renewal terms, a replacement will be developed. In either case, the terms of the renewal/license are expected to be similar to the current License (rate = 7 0% x Net Sales and annual minimums of approx. $170,000(U.S) per year).

LICENSEE SUMMARY-AGREEMENTS WITH EXPIRATION DATES IN 1999 & 2000						
Region	Licensee	Country	1998 License Income	% 1998 Pro forma License Income	Expiration Date	Status of Renewal Negotiations
	REM Optical Co.	U.S.A.	336,815	2.13%	2/28/00	License will be renewed. Terms of the renewal are expected to be similar to current License (rate = 6.0% x Net Sales with annual minimums of approx. $150,000 (U.S.) per year).
	The Warson Group	U.S.A.	256,658	1.63%	4/30/00	License will be renewed for an additional 2 years Terms of the renewal are expected to be similar to current License (rate = 7.0% x Net Sales with annual minimums of approx. $200,000 (U.S.) per year).
Canada	Fionta Sport	Canada	197,213	1.25%	N/A	License was terminated on April 9, 1999 prior to the contractual expiration date of 12/31/99. As a result of Converse's sale of the Canadian operating branch, this license was terminated and a new licensee arrangement was entered into with 3562816 Canada, Inc. as of 4/9/99. This new 5-yr. agreement has the following terms: rate = 7.0% x Net Sales on footwear and 6.0% x Net Sales on activewear, with annual minimums ranging from approx. $550,000 (Cdn.) to $800,000 (Cdn.) during the contract period.
	Gina Hoisery Mills	Canada	11,501	0.07%	3/31/00	Negotiations are currently on-going with this Licensee. If Licensee does not agree to renewal terms, Converse Accessories, our current U.S. Licensee of socks, has expressed an interest in obtaining these exclusive rights in Canada. In either case, the terms of the renewal/license are expected to be similar to the current License (rate = 5.0% x Net Sales and annual minimums of approx. $12,000(Cdn) per year).
	Ruby International	Canada	7,813	0.05%	12/31/00	License will be renewed for an additional 3 years. Terms of the renewal are expected to be similar to current License (rate = 6.5% x Net Sales with annual minimums of approx. $22,500 (Cdn) per year).
		TOTAL	3,707,291	23.46%		

The following licenses, as a precedent to closing, will be renewed by Converse:

Southeast Asia
- Taishoe
- Kumhwa Sports (Activewear)

E.M.E.A.
- Amersport
- Infinity Sports KFT
- Sopotnik Trade (Footwear)
- Sopotnik Trade (Activewear)

Summary of New & Potential Licensees

The following table illustrates new licensees for the year as of October 22, 1999:

Licensee	*Term*		*Contract Minimums*	*Royalty Rate(s)*	*Product(s)*
CONVERSE CANADA INC. (Canada)	3-Apr-99	31-Dec-04	Guaranteed minimum sales volume per year (in C$)	7% (Footwear) 6% (Apparel & Accessories)	Footwear, apparel, bags & hats
MONTICHELVO INDUSTRIAL, S.A. (Spain)	1-Apr-99	31-Dec-01	Guaranteed minimum license fee per year (in US$)	8%	School bags & "back-to-school" items
M.G.S. TRADING LTD. (Israel)	1-Jan-99	31-Dec-00	Guaranteed minimum royalty payment & minimum sales volume (in US $)	6% & 7% (footwear) 6.5% & 7.5% (non-footwear)	Footwear, activewear, socks & sports bags
AOYAMA OPTICAL CO., LTD. (Hong Kong)	1-Mar-98	28-Feb-01	Guaranteed minimum license fee	6.50%	Eyewear
FASHION OPTIONS, INC. (USA)	1-Apr-99	30-Sep-02	Guaranteed minimum license fee	7%	Women's & girls apparel
APPAREL ASSOCIATES, LLC (USA)	1-Apr-99	31-Dec-02	Guaranteed minimum license fee	7%	Infant & toddler wear
P.T. BUANA MEGA BIMASAKTI (Indonesia)	1-Jan-99	31-Dec-03	Guaranteed minimum royalty payment	7.50%	Footwear, activewear & accessories
CAPRY PRINTING COMPANY (Belgium)	21-Dec-98	31-Aug-02	Guaranteed minimum license fee	10%	School bags & "back-to-school" products
SOPOTNIK TRADE (Czech Republic & Slovakia)	01-Jan-99	31-Dec-01	Option 1: Guaranteed minimum royalty payment; Option 2 minimum purchase volume for	25.0% x FOB costs (footwear) 8 0% x Net Sales (non-footwear)	Footwear, activewear & sports bags
DC SPORTS (USA)	1-Mar-99	30-Sep-02	Guaranteed minimum license fee	7%	Basketballs
GENENDER INTERNATIONAL, INC. (USA)	1-Jan-99	31-Dec-02	Guaranteed minimum license fee	7%	Watches
AMERICAN FASHION PRODUCTS (USA)	28-Feb-99	30-Jun-02	Projected minimum annual license fee	7%	Men's underwear & sleepwear
SPORTIL S.A. (Spain)	1-Jan-99	31-Dec-03	Minimum royalty payments for footwear and non-footwear (in Pesetas)	5% (footwear) 7% (activewear & accessories)	Footwear, activewear & accessories
STAMM SPORT & FREIZEIT (European Community)	30-Jun-99	31-Dec-02	Guaranteed minimum license fee	7%	Inflatable balls
PAPERTIES HAMELIN (European Community)	30-Sep-99	31-Dec-02	Guaranteed minimum license fee	10%	Bags, book bags & "back-to-school" items
B.A.C. GIBRALTAR (Italy)	30-Jun-99	31-Dec-04	Guaranteed minimum royalty payment	8%	Footwear & Activewear
URS LTD (Malta)	1-Jan-99	31-Dec-99	Guaranteed minimum royalty payments	25.0% x FOB costs (footwear) 8.0% x Net Sales (non-footwear)	Footwear, activewear & accessories

The Master License to Converse, Inc.

After closing, the Manager shall execute a Master License Agreement, on behalf of the Borrower, with Converse for the non-exclusive rights for the manufacturing and distribution of footwear utilizing the Converse trademarks in the United States. The License shall renew into perpetuity, subject to Master Licensee qualifications. The license will be royalty free through the restructuring period and will be subject to a royalty of 0.5% of net sales thereafter. The royalty rate is lower than many of the other licenses due primarily to the fact that this royalty recognizes the past and ongoing investment of Converse in the brand (i.e. investments in product costs and new technologies, fixed assets, research and development, marketing and promotions of the brand).

Projected Licensing Income

The Company has provided projections through 2010 for licensing income, by region, as follows:

	Fiscal Year 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Japan (pro forma)	4,025,000	4,100,000	4,200,000	4,350,000	4,550,624	4,778,155	5,017,063	5,267,916	5,531,312	5,807,877	6,098,271
SE Asia	4,896,000	4,961,000	5,162,800	5,351,690	5,359,804	5,627,794	5,909,184	6,204,643	6,514,875	6,840,619	7,182,650
Latin America	1,995,000	1,995,000	2,054,850	2,116,496	2,178,898	2,244,265	2,311,593	2,380,940	2,452,368	2,525,940	6,291,616
Canada	312,000	312,000	321,360	331,001	340,931	351,159	361,694	372,544	383,721	395,232	2,601,718
EMEA	3,598,000	5,047,000	5,256,160	5,409,960	5,500,000	5,750,000	6,000,000	6,200,000	6,500,000	6,700,000	407,089
United States (pro forma)	3,026,000	3,026,000	3,116,780	4,396,283	4,550,000	4,800,000	5,000,000	5,250,000	5,450,000	5,700,000	6,305,741
Underwritten Licensing Revenue	17,852,000	19,441,000	20,111,950	21,955,430	22,480,256	23,551,373	24,599,534	25,676,043	26,832,276	27,969,668	28,887,085
LESS foreign tax withholdings (11%)	1,963,720	2,138,510	2,212,315	2,415,097	2,472,828	2,590,651	2,705,949	2,824,365	2,951,550	3,076,663	3,177,579
Underwritten Cash Flow	15,888,280	17,302,490	17,899,636	19,540,332	20,007,428	20,960,722	21,893,586	22,851,679	23,880,726	24,893,004	25,709,506

Pro forma for (i) the sale of the Japanese non-footwear trademarks and (ii) the Master License effective 2003 (after 30 month restructure period)

At closing, the Manager will execute a Master License Agreement Converse for the non-exclusive rights for the manufacturing and distribution of footwear utilizing the Converse trademarks in the United States. Beginning in the 31st month (after the 30 month restructuring period), the Converse will pay a 0.5% royalty under the Master License Agreement that will pass through the Lockbox and Transaction Waterfall.

The royalty rate for the master license is lower than market due primarily to the fact that this royalty recognizes the past and ongoing investment of Converse in the brand (i.e. investments in product costs and new technologies, fixed assets, research and development, marketing and promotion of the brand).

Section III: Transaction Structure

Overview of Loan Structure

The Loan has been structured as a fully amortizing loan with a 20-year legal maturity. The transaction utilizes an accelerated principal account which will be utilized to accumulate funds from the cash flow generated from the license collateral for quarterly application to payment of the loan principal.

The Loan is secured by a first priority, perfected pledge and security interest in all of the assets of the borrower. The Loan is priced [TBD] basis points over comparable treasuries.

Credit Enhancements

The Loan will have a number of structural credit enhancements, including a lockbox, a 10% liquidity reserve (with a floor), an additional liquidity reserve and the aforementioned accelerated principal account.

Back-up Manager

A Back-up Manager (or Back-up Managers) will be engaged prior to closing to step in and take over the management of the collateral upon a violation of the Collateral Maintenance provisions of the Loan Documents and/or a violation of the Management agreement. The role of the Back-up manager will be to manage existing sub-licenses that cannot be terminated at the time of replacement of the Manager, until the licenses expire. Additionally, The Back-up Manager will provide the advisory expertise necessary to negotiate a put of the brand (through a master license) to an investment grade retailer (see below).

Prepayment/Defeasance

Prepayment of the loan is allowed at anytime, subject to yield maintenance through defeasance. Under defeasance, the borrower must post risk-free collateral (in the form of direct, non-callable securities backed by the full faith and credit of the United States government) that will provide sufficient cash flow to make the remaining interest and principal payments.

Loan Structure

The table below summarizes the expected debt service payments required to service the proposed loan, given management's projections.

Total Transaction					Average Life:	5.04 years	Mgmt. or UCC ("0"/"1") Case:		0		
Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Principal Paid from Cash, Reserves & Wrap	Interest From Cash, Reserves & Wrap	Minimum Accelerated Principal Payment	Minimum Management Fee	Maximum Accelerated Principal Payment	Insurance Claims	Total Debt Service (including Pre-payment from Reserve)	Excess Management Fee	Total Management Fees
0	85,000 000	16,651,200									
1	78,814,238	16,539 570	1 375 188	8 269,426	3 314 750	2 189 686	1 495 825	-	14 455,188	-	2,189,686
2	71 066 707	17,577 495	1 375 765	7,585,478	3,895,615	2 377 187	2 476,151	-	15 333 008	-	2 377,187
3	62 197 338	18,249 238	1 341 984	6,776 283	4,612,145	2,461,155	2 915,241	-	15,645,652	282 304	2,743 459
4	52 192,274	19,023,966	1 267 454	5 853 905	5,459 517	2,557,996	3,278 093	-	15,858 968	755 931	3,313,927
5	41 828,251	19,833,300	1 144 511	4 828 359	6 435 731	2 659,162	2 783 780	-	15 192 382	2 018 662	4 677,825
6	31,776,247	20 678 843	988 502	3 803 211	7,439 715	2 764 855	1 623 787	-	13,855,216	4 065 782	6 830,637
7	22 092 652	21 562 281	802 499	2 811 470	8,440,798	2 875 285	440 299	-	12 495,065	6,214 758	9 090 043
8	12 056,734	22,485 375	577,186	1,839 215	9,458 731	2 990 672	-	-	11,875,131	7 748 719	10 739,391
9	-	7,306 129	9,520,574	301 418	2 536 160	973,266	-	-	12 358 152	4 038,699	5 011 965
10	-	-	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-	-	-
16	-	-	-	-	-	-	-	-	-	-	-
17	-	-	-	-	-	-	-	-	-	-	-
18	-	-	-	-	-	-	-	-	-	-	-
19	-	-	-	-	-	-	-	-	-	-	-
20	-	-	-	-	-	-	-	-	-	-	-

Total Transaction (cont.)										
Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Manager Required Debt Service	Manager Trigger DSCR	Default Required Debt Service	Default DSCR	Liq. Reserve Balance	Liquidity	Net Loan	Net Loan to Value
0	85,000,000	16,651,200	9 868 855	1 54 x	9,868,855	1 54 x	8,500,000	10 0%	76,500,000	34 00%
1	78,814,238	16,539,570	9 644 613	1 71 x	9,644,613	1 71 x	8,802,319	11 2%	70,011 919	31 12%
2	71,066,707	17,577,495	8,961,243	1 96 x	8,961,243	1 96 x	9,115,391	12 8%	61 951,316	27 53%
3	62,197,338	18,249,238	12 730 411	1 43 x	8,118,267	2 25 x	9 439,597	15 2%	52,757 741	23 45%
4	52,192,274	19 023,966	12 580,875	1 51 x	7,121,359	2 67 x	9,775 335	18 7%	42,416,939	18 85%
5	41,828 251	19,833,300	12,408,602	1 60 x	5 972,871	3 32 x	10,123,014	24.2%	31,705 237	14 09%
6	31,776 247	20,678 843	12,231 428	1 69 x	4,791,713	4 32 x	10,483,059	33 0%	21 293 188	9 46%
7	22 092 652	21,562 281	12,054 767	1 79 x	3,613 969	5 97 x	10,855,909	49 1%	11,236,743	4 99%
8	12 056,734	22.485 375	11,875,131	1 89 x	2 416 401	9 31 x	11,242,021	93.2%	814,713	0 36%
9	-	7 306 129	2,938,522	2 49 x	402 362	18 16 x	-	-	-	0 00%
10	-	-	-	n/a	-	n/a	-	-	-	0 00%
11	-	-	-	n/a	-	n/a	-	-	-	0 00%
12	-	-	-	n/a	-	n/a	-	-	-	0 00%
13	-	-	-	n/a	-	n/a	-	-	-	0 00%
14	-	-	-	n/a	-	n/a		-	-	0 00%
15	-	-	-	n/a	-	n/a	-	-	-	0 00%
16	-	-	-	n/a	-	n/a	-	-	-	0 00%
17	-	-	-	n/a	-	n/a	-	-	-	0 00%
18	-	-	-	n/a	-	n/a	-	-	-	0 00%
19	-	-	-	n/a	-	n/a	-	-	-	0 00%
20	-	-	-	n/a	-	n/a	-	-	-	0 00%

The following indicates the priority of payments in the transaction waterfall:

Subject to final structuring and documentation of the Transaction, cash collections to the Lockbox shall be allocated on a priority basis to the Distribution Account, as follows:

1) Lockbox Allocations (withholding taxes and advertising costs)
2) Trustee fees
3) Reimbursement of credit enhancement draws (if applicable)
4) Credit enhancement premiums (if applicable)
5) Loan servicing fees
6) Loan interest payments
7) Loan principal payments
8) Minimum Accelerated Principal Payments (principal payments necessary to repay the Loan by the 10-year Expected Maturity)
9) Replenishment of Liquidity Reserve
10) Administration (Management) Fees ($15,000 per quarter)
11) Excess Administration Fees (up to 12.5% of gross licensing income to cover overhead of the manager)
12) Excess Accelerated Principal payments up to Maximum Accelerated Principal Payments (9.5% maximum amount, plus prior period shortfalls, to preserve an average life of no less than 5-years)
13) After application to the foregoing, it is contemplated that the Transaction and Transaction Waterfall shall provide for release of excess cash balances to the Manager.

Stress Testing

Lender has performed two stress scenarios. The first represents a scenario of 0% growth in underwritten cashflow.

Scenario 1

Total Transaction					Average Life	5.49 years	Mgmt. or UCC ("0"/"1") Case.				1
Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Principal Paid from Cash, Reserves & Wrap	Interest From Cash, Reserves & Wrap	Minimum Accelerated Principal Payment	Minimum Management Fee	Maximum Accelerated Principal Payment	Insurance Claims	Total Debt Service (including Pre-payment from Reserve)	Excess Management Fee	Total Management Fees
0	85,000,000	16,651,200									
1	79,259,538	15,888,280	1,376,451	8,276,779	3,307,425	1,972,191	1,056,586	-	14,017,242	-	1,972,191
2	72,838,887	16,159,920	1,392,976	7,679,362	3,801,184	2,180,657	1,226,491	-	14,100,013	-	2,180,657
3	65,230,945	16,749,758	1,385,255	6,993,822	4,390,456	2,273,720	1,832,231	-	14,601,763	-	2,273,720
4	56,767,246	17,067,956	1,342,579	6,199,681	5,101,751	2,313,495	2 019,370	-	14,663,380	221,353	2,534,847
5	47,625,659	17,067,956	1,264,297	5,332,299	5,905,565	2,313,495	1,971,726	-	14,473,887	411,970	2,725,465
6	37,833 898	17,067,956	1,143,533	4,398,442	6,801,993	2,313,495	1,846,235	-	14,190,203	697,204	3,010,698
7	27,849,580	17,067,956	972,952	3,407,317	7,789,443	2,313,495	1,221,923	-	13,391,634	1,440,206	3,753,701
8	18,110,685	17,067,956	760,482	2,420,704	8,808,664	2,313,495	169,750	-	12,159,599	2,648,098	4,961,593
9	-	14,537,572	10,809,354	1,168,327	7,301,330	1,967,196	-	-	19,279,011	3,983,267	5,950,463
10	-	-	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-	-	-
16	-	-	-	-	-	-	-	-	-	-	-
17	-	-	-	-	-	-	-	-	-	-	-
18	-	-	-	-	-	-	-	-	-	-	-
19	-	-	-	-	-	-	-	-	-	-	-
20	-	-	-	-	-	-	-	-	-	-	-
								-			

Total Transaction (cont.)										
Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Manager Required Debt Service	Manager Trigger DSCR	Default Required Debt Service	Default DSCR	Liq Reserve Balance	Liquidity	Net Loan	Net Loan to Value
0	85,000,000	16,651,200	9,868,855	1 54 x	9,868,855	1 54 x	8,500,000	10 0%	76,500,000	34 00%
1	79,259,538	15,888,280	9,653,231	1 65 x	9,653,231	1 65 x	8,802,319	11 1%	70,457,219	31 31%
2	72,838,887	16,159,920	9,072,338	1 78 x	9,072,338	1 78 x	9,115,391	12 5%	63,723,496	28 32%
3	65,230,945	16,749,758	12,769,533	1 31 x	8,379,077	2 00 x	9,439,597	14 5%	55,791,348	24 80%
4	56,767,246	17,067,956	12,644,010	1 35 x	7,542,259	2 26 x	9,775,335	17 2%	46,991,911	20 89%
5	47,625,659	17,067,956	12,502,161	1 37 x	6,596,596	2 59 x	10,123,014	21 3%	37,502,645	16 67%
6	37,833,898	17,067,956	12,343,968	1 38 x	5,541,975	3 08 x	10,483,059	27 7%	27,350,839	12 16%
7	27,849,580	17,067,956	12,169,712	1 40 x	4,380,268	3 90 x	10,855,909	39 0%	16,993,671	7 55%
8	18,110,685	17,067,956	11,989,849	1 42 x	3,181,185	5 37 x	11,242,021	62 1%	6,868,664	3 05%
9	-	14,537,572	8,869,769	1 64 x	1,568,439	9 27 x	-	-	-	0 00%
10	-	-	-	n/a	-	n/a	-	-	-	0 00%
11	-	-	-	n/a	-	n/a	-	-	-	0 00%
12	-	-	-	n/a	-	n/a	-	-	-	0 00%
13	-	-	-	n/a	-	n/a	-	-	-	0 00%
14	-	-	-	n/a	-	n/a	-	-	-	0 00%
15	-	-	-	n/a	-	n/a	-	-	-	0 00%
16	-	-	-	n/a	-	n/a	-	-	-	0 00%
17	-	-	-	n/a	-	n/a	-	-	-	0 00%
18	-	-	-	n/a	-	n/a	-	-	-	0 00%
19	-	-	-	n/a	-	n/a	-	-	-	0 00%
20	-	-	-	n/a	-	n/a	-	-	-	0 00%

The second scenario indicates the maximum annual decline that the transaction can sustain without defaulting. The transaction can sustain in excess of 9.75% decline per annum.

Scenario 2

Total Transaction					Average Life:	7.81 years	Mgmt. or UCC ("0"/"1") Case.				1
Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Principal Paid from Cash, Reserves & Wrap	Interest From Cash, Reserves & Wrap	Minimum Accelerated Principal Payment	Minimum Management Fee	Maximum Accelerated Principal Payment	Insurance Claims	Total Debt Service (including Pre-payment from Reserve)	Excess Management Fee	Total Management Fees
0	85,000,000	16,651,200									
1	79,302,843	15,295,792	1,376,633	8,277,840	3,306,369	1,418,172	1,014,155	-	13,974,997	-	1,418,172
2	73,562,034	14,191,262	1,397,934	7,706,134	3,656,361	849,869	686,513	-	13,446,943	-	849,869
3	58,584,832	13,316,040	11,370,493	7,127,897	3,262,740	571,841	343,969	-	22,105,099	-	571,841
4	52,497,471	12,276,900	6,087,361	5,607,509	-	-	-	-	11,694,871	-	-
5	46,966,185	11,079,903	5,531,286	5,021,868	-	-	-	-	10,553,154	-	-
6	41,932,865	9,999,612	5,033,320	4,489,439	-	-	-	-	9,522,759	-	-
7	37,344,669	9,024,650	4,588,196	4,004,632	-	-	-	-	8,592,828	-	-
8	33,153,461	8,144,747	4,191,208	3,562,356	-	-	-	-	7,753,564	-	-
9	29,315,306	7,350,634	3,838,155	3,157,974	-	-	-	-	6,996,129	-	-
10	25,922,327	6,633,947	3,392,978	2,919,566	-	-	-	-	6,312,544	-	-
11	23,202,047	5,987,137	2,720,281	2,975,328	-	-	-	-	5,695,609	-	-
12	20,724,319	5,403,391	2,477,728	2,661,096	-	-	-	-	5,138,824	-	-
13	18,462,649	4,876,561	2,261,671	2,374,656	-	-	-	-	4,636,326	-	-
14	16,392,767	4,401,096	2,069,882	2,112,940	-	-	-	-	4,182,822	-	-
15	14,311,641	4,158,724	2,081,126	1,870,395	-	-	-	-	3,951,521	-	-
16	11,969,316	4,158,724	2,342,326	1,609,195	-	-	-	-	3,951,521	-	-
17	9,333,008	4,158,724	2,636,308	1,315,213	-	-	-	-	3,951,521	-	-
18	6,367,587	4,158,724	2,965,421	986,515	-	-	-	-	3,951,936	-	-
19	3,084,824	4,158,724	3,282,763	620,040	-	-	-	-	3,902,803	-	-
20	-	3,861,748	3,084,824	206,836	-	280,000	-	-	3,291,660	25,490	305,490
								-			

Total Transaction (cont.)										
Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Manager Required Debt Service	Manager Trigger DSCR	Default Required Debt Service	Default DSCR	Liq. Reserve Balance	Liquidity	Net Loan	Net Loan to Value
0	85,000,000	16,651,200	9,868,855	1.54 x	9,868,855	1.54 x	8,500,000	10.0%	76,500,000	34.00%
1	79,302,843	15,295,792	9,654,474	1.58 x	9,654,474	1.58 x	8,802,319	11.1%	70,500,524	31.33%
2	73,562,034	14,191,262	9,104,068	1.56 x	9,104,068	1.56 x	9,115,391	12.4%	64,446,643	28.64%
3	58,584,832	13,316,040	11,682,763	1.14 x	8,540,005	1.56 x	-	0.0%	58,584,832	26.04%
4	52,497,471	12,276,900	6,822,042	1.80 x	6,822,042	1.80 x	-	0.0%	52,497,471	23.33%
5	46,966,185	11,079,903	6,213,026	1.78 x	6,213,026	1.78 x	-	0.0%	46,966,185	20.87%
6	41,932,865	9,999,612	5,657,486	1.77 x	5,657,486	1.77 x	-	0.0%	41,932,865	18.64%
7	37,344,669	9,024,650	5,149,555	1.75 x	5,149,555	1.75 x	-	0.0%	37,344,669	16.60%
8	33,153,461	8,144,747	4,683,787	1.74 x	4,683,787	1.74 x	-	0.0%	33,153,461	14.73%
9	29,315,306	7,350,634	4,255,087	1.73 x	4,255,087	1.73 x	-	0.0%	29,315,306	13.03%
10	25,922,327	6,633,947	3,954,437	1.68 x	3,954,437	1.68 x	-	0.0%	25,922,327	11.52%
11	23,202,047	5,987,137	3,893,047	1.54 x	3,893,047	1.54 x	-	0.0%	23,202,047	10.31%
12	20,724,319	5,403,391	3,584,421	1.51 x	3,584,421	1.51 x	-	0.0%	20,724,319	9.21%
13	18,462,649	4,876,561	3,304,936	1.48 x	3,304,936	1.48 x	-	0.0%	18,462,649	8.21%
14	16,392,767	4,401,096	3,051,555	1.44 x	3,051,555	1.44 x	-	0.0%	16,392,767	7.29%
15	14,311,641	4,158,724	2,817,252	1.48 x	2,817,252	1.48 x	-	0.0%	14,311,641	6.36%
16	11,969,316	4,158,724	2,542,836	1.64 x	2,542,836	1.64 x	-	0.0%	11,969,316	5.32%
17	9,333,008	4,158,724	2,195,837	1.89 x	2,195,837	1.89 x	-	0.0%	9,333,008	4.15%
18	6,367,587	4,158,724	1,755,018	2.37 x	1,755,018	2.37 x	-	0.0%	6,367,587	2.83%
19	3,084,824	4,158,724	1,186,960	3.50 x	1,186,960	3.50 x	50,225	1.6%	3,034,599	1.35%
20	-	3,861,748	426,973	9.04 x	426,973	9.04 x	-	-	-	0.00%

Loan Servicing

The Loan will be serviced by ABC Servicing Corporation, LLC. On a daily basis, cash entering the lockbox will be monitored. On a quarterly basis, all funds will be swept from the lockbox and applied to loan expenses, interest, principal, liquidity reserve and sinking fund payments, with any excess distributed to the Manager, as provided for in the Management Agreement. Monthly statements from ABC will be sent to the Borrower as well as to ABC Lending. ABC Servicing Corporation will earn a servicing fee equal to an agreed upon percentage of the loan balance, payable quarterly, to service the Loan.

Section IV: Restructuring of Converse

Overview

In conjunction with the proposed transaction, Converse has begun undergoing a restructuring involving a detailed strategic plan (the "Strategic Plan") that will be completed within 30 months of closing. The Strategic Plan is comprised of 10 steps, as follows:

1. Corporate restructuring
2. Restructuring of Converse's Balance Sheet
3. Conversion of unprofitable distribution subsidiaries into licensees.
4. Move production facilities to lower cost locations.
5. Conversion and/or shuttering of unprofitable retail outlet stores.
6. Rationalization and streamlining of corporate overhead.
7. Implementation of a detailed marketing plan and appointment of "Brand Czar".
8. Expansion and diversification of geographic concentration of international licensing operations.
9. Expansion and diversification of licensed products.
10. Future products and new technology.

Financial Impact of Restructuring Actions

Converse has prepared a detailed analysis of the financial impact of the restructuring described herein. Below is a summary of the consolidated, cumulative net P&L impact of the 30-month restructuring Strategic Plan.

	Pro Forma 24 Months after Implementation ($ in millions)
Operating Income (Loss) 1999 Forecast (Pro forma)	$(10.8)
Unabsorbed Factory Overhead	(5.2)
Conversion of International Subs to Licensees	
Incremental Operating Earnings	3.9
Incremental Licensee Income	3.0
Restructure Western Europe	2.4
Streamline Company's Operating Expenses	15.7
Relocation of Manufacturing Operations	6.7
Close 5 non-performing Retail Stores	1.0
Incremental Sales/Margin	5.8
Consolidated Adjusted Operating Income	$22.5

Note: Excludes charge for restructuring reserves
Pro forma for sale of Japanese non-footwear trademarks.

Below is a Historical and Projected P&L Summary for Converse (see Section VI for detailed projections):

$ in Thousands		Fiscal Year 1994	1995	1996	1997	1998	1999	2000	2001	2002
Net Sales		437,307	407,483	349,335	450,199	308,353	231,767	224,300	205,300	220,700
Licensing Revenue										
Japan (pro forma "1"/"0")	1	3,792	2,492	794	1,318	2,755	3,812	4,025	4,100	4,200
SE Asia		4,115	4,320	6,252	5,577	4,165	4,854	4,896	4,961	5,163
EMEA		1,627	2,094	2,294	3,059	1,819	2,664	3,598	5,047	5,256
Latin America		293	376	926	2,237	2,176	1,879	1,995	1,995	2,055
Canada		281	354	410	132	265	200	312	312	321
United States (pro forma "1"/"0")	1	3,786	3,025	4,417	6,061	4,612	4,009	3,026	3,026	3,117
Underwritten Licensing Revenue		13,894	12,661	15,093	18,384	15,792	17,418	17,852	19,441	20,112
Total Revenues (consolidated)		451,201	420,144	364,428	468,583	324,145	249,185	242,152	224,741	240,812
LESS: COGS (w/ P&E D&A add-back)		(286,555)	(293,948)	(263,098)	(329,258)	(237,671)	(175,296)	(171,000)	(145,000)	(155,200)
LESS: SG&A		(128,876)	(146,332)	(114,888)	(127,261)	(92,683)	(82,405)	(59,500)	(48,400)	(50,600)
Operating Earnings		35,770	(20,136)	(13,558)	12,064	(6,209)	(8,516)	11,652	31,341	35,012

At closing, Converse will fund a portion of the proceeds into a restructuring account with Bankers Trust Commercial Corporation ("BTCC") to fund restructuring charges through the 30-months restructuring period. The account will be controlled by BTCC and dispersed as required to fund specific, one-time restructuring charges.

Corporate Restructuring

In association with the proposed transaction, Converse will undergo a significant corporate restructuring. The purpose of this restructuring is to assist in effectuating a cleaner transaction and to minimize any qualifications needed in the true sale and non-consolidation opinions. The proposed restructuring provides separation between the Borrower and Converse Inc. to mitigate any bankruptcy risk posed by Converse's recent operating history and minimize manufacturing and operating risk, thereby providing a stronger credit position. Additionally, this restructuring provides Converse's shareholders with a more advantageous structure to explore alternative business plans, with special regard as to whether or not to continue to manufacture products domestically, or at all.

Post-closing, there will be two new legal entities created. Through the creation of the Manager and the Borrower, Converse will, for all intents and purposes, bifurcate Converse into a licensing trademark company (the Manager and Borrower) and a third-party licensee (Converse and subsidiaries). Under the Master License Agreement, Converse will continue to manufacture and distribute Company athletic footwear within the United States and supply product to certain international markets. Under the terms of the Master License Agreement, Converse will be subject to customary terms, including the payment of royalties to the Borrower and maintaining certain performance criteria in a manner consistent with a license of this nature. The Master License will be part of the Loan Collateral.

Should any terms of the license be broken, Chucky Newco, as Manager of the Licenses, will have the right and in certain instances (refer to the Summary of Terms and Conditions in Appendix A) be required to terminate the Master License Agreement on behalf of the Borrower. The Master License shall be non-exclusive, thereby allowing the Manager or Back-up Manager, as the case may be, to enter into license agreements to protect the transaction cash flow. The non-exclusivity shall also allow the Manager or Back-up Manager, as the case may be, to source product overseas, in order to fulfill the distribution obligations contained in certain license agreements.

Chucky Newco, as a Qualified Manager, will be required, in return for Administration Fees, to manage and exploit the Trademarks and Licenses on a best efforts basis. Should the Manger not perform its duties as required, or if the Manager cannot maintain its status as a Qualified Manager, the Lender shall have the right to terminate the Manager and install a Back-up Manager. The Back-up Manager, identified prior to closing (Jassin-O'Rourke), will, in return for a pre-determined fee, continue to administer the Trademarks and Collateral, while pursuing alternative forms of exploitation that will protect and enhance the cash flow of the Borrower. The options available (the Exploitation Rights) shall include, though shall not be limited to the negotiation of a Retail Put Contract, the identification of a replacement Qualified Manager and ultimately, upon default, the immediate liquidation of the collateral.

The plan is designed to allow Converse the opportunity to lower U.S. manufacturing costs and make Converse profitable. If the plan fails, Converse will be able to shut down the manufacturing operations and complete the full conversion into a licensing, sourcing and distribution company with little disruption. The most likely scenario is that the Manager will license the manufacturing to an overseas factory. Through the restructuring and the requisite consent process, the License Collateral is isolated from the bankruptcy risk of the manufacturing operations.

Restructuring of Converse's Balance Sheet

With the capital raised in the proposed transaction, in tandem with the sale of the Japanese trademarks, Converse will be significantly re-structuring its balance sheet, thereby increasing its liquidity position by swapping variable interest exposure for long-term fixed rate financing. The Balance Sheet restructuring will be as follows:

				Post Securitization		
			11/27/99		Pro Forma	% Change
	Foreign Trade Bank Debt	$	3,831	$	3,831	0%
	Senior Debt	$	85,782	$	16,964	-80%
	Convertible Notes		74,265		74,265	0%
	UCC Debt		-		85,000	-
(a)	**TOTAL DEBT**	**$**	**163,878**	**$**	**197,024**	**20%**
(b)	Less: Cash & Equivalents		1,708		12,708	644%
	TOTAL NET DEBT	**$**	**162,170**	**$**	**184,316**	**14%**
	Est. Annual Interest Expense	**$**	**14,246**	**$**	**16,599**	**17%**
	w/ Fully Drawn Revolver					
	Revolver commitment		90,000		70,000	-22%
(c)	Available commitment based on Borrowing Base		64,500		64,578	0%
(d)	Total Available Committed Senior Debt		170,769		258,938	52%
	Excess Liquidity = (d) - (a) + (b)		8,599		74,622	768%
	Est. Annual Interest Expense		19,637		21,986	12%

Note: The net result of the balance sheet restructuring immediately after the securitization is as follows:

a. Total Net Debt is increased by 14%
b. Estimated Annual Interest expense is increased by 12%
c. Total Available Committed Senior Debt increase by 52%
d. Cash & Equivalents increased by 7.4x or 644%
e. Excess Liquidity increased by 8.7x or 768% which positions the Company well to execute its restructuring plan

Conversion of Unprofitable Distribution Subsidiaries into Licensees

- In certain international markets, particularly Western Europe, historically Converse has operated wholly-owned subsidiaries:
  - In several countries, revenues have fallen as a result of the overall downturn of the athletic footwear market.
  - Ongoing operating expenses of these subsidiaries have contributed negatively to Converse's profitability.
- Converse has begun an initiative to convert unprofitable international operating subsidiaries into licensees.
  - In response, the Company has recently entered into agreements with locally-based independent companies, converting these under-performing subsidiaries into licensee/distributors, thereby generating positive earning.
  - This conversion has been successfully completed in Spain (January 1999), Portugal (January 1999), Canada (April 1999) and Italy (January 2000).
  - Converse is planning conversions in 2000 in the remaining markets of Western Europe.
  - Currently, the Company has letters of intent and is in final negotiations in the Benelux and Scandinavia territories for conversion effective May 2000.
  - After completion of Benelux and Scandinavia, the Company will convert its remaining subsidiaries in the territories of France, Germany and the United Kingdom.

Financial Impact of Conversion

The following tables illustrate the estimated cost savings from converting distribution subsidiaries into licensees. Although this conversion eliminates the net sales typically generated by the subsidiaries, it also eliminates the cost of those sales as well as the operating expense otherwise incurred, resulting in positive incremental operating income.

Fiscal Year 2000

	Converted Canada, Italy, Spain & Portugal	Plan to convert Benelux, Scandinavia & France	2000 Impact
Net Sales	$(19.2)	$(3.1)	$(22.3)
Cost of Sales	(15.6)	(2.3)	(17.9)
Gross Profit	(3.6)	(0.8)	(4.4)
Operating Expense	(4.8)	(1.2)	(6.0)
Operating Income	$ 1.2	$ 0.4	$ 1.6

See Section II: Collateral Analysis for projections that reflect the incremental income related to the above conversions.

Fiscal Year 2001

	Conversion of all Western Europe and Canada	2001 Impact
Net Sales	$(51.3)	$(51.3)
Cost of Sales	(38.7)	(38.7)
Gross Profit	(12.6)	(12.6)
Operating Expense	(16.5)	(16.5)
Operating Income	$ 3.9	$ 3.9

See Section II: Collateral Analysis for projections that reflect the incremental income related to the above conversions.

1999 Plan

The 1999 pro forma forecast of $16.2* million of licensee income includes income from its initial conversion of the Spain/Portugal subsidiaries into a licensee. This generated incremental licensing income of $0.5 million.

*Pro forma for the sale of the Japan non-footwear trademarks

2000 Plan

The Year 2000 licensee income projection of $17.9 million assumes limited growth from Converse's base licensees, which includes conversion of Spain and Portugal effective January 1999. Also includes conversions of Canada (April 1999) - $0.3 million, Italy (January 2000) - $0.6 million. Conversions are planned for Benelux, Scandinavia and France during 2000.

2001 Plan

The Year 2001 projection of licensee income of $19.4 million assumes limited growth from the 1999 base level of $16.2 million and conversion of the following territories – Spain, Portugal, Canada, Italy, France, Benelux and Scandinavia. Also assumes effective January 2001 the conversion of the remaining Western Europe territories of Germany and U.K. The conversions, which started in 1999 and will continue in 2000/2001, will generate incremental licensee income of $3.0 million and will eliminate losses of $2.4 million.

Net Financial Impact

	1999	2000	2001
Base Licensing Income	$16.2m	16.2m	16.4m
Canada, Italy, France, Benelux and Scandinavia		1.7m	
All of Western Europe and Canada			3.0m
Total Licensee Income	$16.2m	$17.9m	$19.4m

Financial Impact of Western Europe Restructure

	12 Months after Implementation	24 Months after Implementation
EMEA Administrative Expense	$(2.4)	$(2.4)

Move Production Facilities to Lower Cost Locations

In formulating the restructuring plan, Converse recognized that it was not able to gain a competitive advantage from being a low-cost producer of footwear under its current production structure. Though there are certain perceived benefits with the current structure, including goodwill associated with the "Made in USA" label in international markets and a fast distribution cycle with domestic just-in-time delivery of product, the cost-benefit ratio is out of balance. In response to this recognition, Converse has evaluated and approved a plan to shift its manufacturing operations to a lower cost platform.

- Converse operates three manufacturing facilities that are located in Lumberton, North Carolina; Mission, Texas and Reynosa, Mexico.
- The Lumberton facility is currently running at 50% capacity.
- Majority of sales of Converse's Athletic Originals category are from models manufactured at the Lumberton facility supplemented by Mission production and Reynosa cutting and stitching.

Converse will close the Lumberton plant and transfer all manufacturing operations to Mission and Reynosa in 2001/2002 with expected savings of $6.7 million.

Financial Impact of Manufacturing Relocation

	Pro forma 24 Months after Implementation
Net Cost of Sales	$(6.7)

Discontinuing Operations at Unprofitable Retail Outlet Stores

- Converse is planning to discontinue operations at five (5) unprofitable retail outlets (Little Rock, AR; Albuquerque, NM; Austin, TX; Addison, TX; Falls Church, VA) during the first quarter of 2000 and reduce the associated overhead costs supporting these units.
  - The retail locations selected are those where revenue levels have fallen or the overhead structure is generating operating losses.
  - From reductions during 1999 and after eliminating these five (5) retail stores, manpower from our retail operations will be reduced by 59 or 23% from year end 1998.

Financial Impact of Closings of 5 Retail Stores:

	12 Months after Implementation	**24 Months after Implementation**
Net Sales	$(2.2)	$(2.2)
Cost of Sales	(1.2)	(1.2)
Gross Profit	(1.0)	(1.0)
Operating Expense	(2.0)	(2.0)
Incremental Operating Income	$ 1.0	$ 1.0

Rationalization and Streamlining of Corporate Overhead

- From 1995 to 1998 Converse slashed infrastructure resulting in operating expense reduction of $53.6 million. The decrease was the result of aggressive actions taken to address the weak industry conditions in Fiscal 1997 and 1998.
- Additional reduction of operating expenses of $19.0 million for Fiscal 1999, excluding a 1998 one-time credit of $9.0 million related to the reversal of accruals associated with the curtailment of the Company's post-retirement medical benefit plan.
- During 1999, corporate manpower was reduced by 43 or 8% and distribution manpower by 26 or 19% from year end 1998.
- In 2000, the Company will continue to reduce its spending structure across all functions and further conversion of the remaining international subsidiaries to licensee/distributor arrangements. SG&A expenses (excluding international expenses) for Fiscal 2000 are expected to be reduced by approximately $15.0 million from the prior year.
- During 2000, the Company will further reduce its corporate manpower by 73 or 15% from year end 1999 manpower.

Financial Impact of Streamlining Operating Expenses

	12 Months after Implementation	24 Months after Implementation
Product Development	$ (3.2)	$ (3.2)
Marketing	(2.6)	(2.6)
Marketing Communication	(2.1)	(2.1)
Sports Marketing	(1.0)	(1.0)
Account Management	(0.5)	(0.5)
U.S. Sales Expense	(1.1)	(2.2)
Administrative Expense	(4.1)	(4.1)
Net Operating Expense Reduction	$(14.6)	$(15.7)

Implementation of a Detailed Marketing Plan

Converse will be evaluating and recommending a marketing plan that will be implemented by the Company during the restructuring period. Converse's commitment to marketing and brand imaging is vital for the maintenance and appreciation of the trademark's brand equity.

Capitalize on Rich Heritage

Converse's rich heritage is a cornerstone of the brand. Classic products like the Chuck Taylor® All Star® and Jack Purcell® have endured the test of time and are in demand throughout the world. Converse is continually developing versions of these two classic models by altering their color and material. This offers great commercial potential due to the loyal consumer base of these products, such as the One Star™ and Pro Leather™, which represents additional opportunities in the marketplace. As the new Millennium approaches, demand for classic products should strengthen because of their authenticity. In addition Converse will continue to develop new products that are directly inspired by classics and its heritage.

The detailed marketing plan will be made available by the Company upon request.

Expansion and Diversification of Geographic Concentration of International Licensing Operations

The restructuring described herein (especially the creation of Manager) allows Converse to have a better focus for the exploitation of the Converse Brand. The new structure will provide more support and attention from senior management and it will better focus Converse on the importance of maintaining the brand equity of Converse through the expansion of licensing opportunities and the increase in marketing and advertising support.

Converse currently has a presence in more than 114 countries and territories. Though the market breadth of the Trademark is large, there is not necessarily as much product breadth within these countries and territories. The Manager will through the network of licensees, and through the utilization of appropriate third party consultants, expand the penetration of the Trademarks throughout the world.

Expansion and Diversification of Licensed Products

The restructuring described herein allows Converse to have a better focus for the exploitation of the Converse Brand. The new structure will provide more support and attention from senior management and it will better focus Converse on the importance of maintaining the brand equity of Converse through the expansion of licensing opportunities and the increase in marketing and advertising support.

Converse's licensed products are highly concentrated in the branded athletic apparel and footwear category. Opportunity exists for Converse to expand beyond the boundaries of this category and into the casual and denim apparel product categories. Converse's Athletic Originals footwear category has already crossed the line into "fashionable footwear". There is a very large appetite for "life-style" brands in the marketplace. Converse is uniquely positioned through its high level of brand equity and customer recognition, to leverage itself into a "very large apparel licensor that also distributes athletic footwear".

Diversification of Manufactured Footwear Offerings

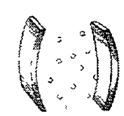
In 1998, Converse diversified its offerings by introducing Action Sports and Women's Originals shoes. The Action Sports shoes (skateboard) are made for the consumer who shifted buying habits from basketball/training shoes to skateboard, trail running, and hiking shoes. This shift occurred because of the increasing popularity of individual sports compared to team sport activities. The skateboard shoes are designed for the serious enthusiast and are distributed to specialty stores throughout the world. Converse also expanded its offerings by introducing women's Athletic Originals. These are specifically designed to meet the needs of the 12 – 24 year old female consumer. The products are updated casual versions of Converse's heritage athletic shoes and are distributed to specialty and department stores.

Future Products and New Technology

Converse has invested more than $30 million since 1995 in the research and development ("R&D) of new models and technologies for the design and production of its footwear products. As a percentage of net sales, Converse expended 2.0% in 1997, 2.5% in 1998 and 2.6% (est.) in 1999 towards its R&D program. The importance of R&D in the footwear industry includes, and in fact, transcends, the importance of functionality. R&D is just as important with regards to product differentiation as it is to functionality in the performance shoe category.

New Technology Introduction

Converse is the first footwear manufacturer to harness the lighter-than-air helium atom by developing a revolutionary polymer that is impermeable to the helium atom. Converse has developed a breakthrough method to encapsulate helium molecules in a material known as Nanofilament™. Designed to improve the performance needs of serious athletes. The shoe containing the new helium technology debuts in the All Star® He:01 basketball shoe available for the 1999 Holiday season. Subsequently, Converse plans to introduce a complete line of helium products in 2000 in the product categories of training, running, action sports and other basketball shoes as well as additional newer models in the women's and action sports categories.



Nanofilament ™ technology

New Product Category

Converse will introduce a new product category during the back-to-school ("BTS") 2000 season. The "Lifestyle" category will consist of various models of a casual athletic shoe with a low-top body style and white leather material. This category is being developed to capitalize on the white casual shoe trend which began on the West Coast and appears to be growing throughout the entire U.S. market. Some of the models that will be introduced are the "Cynch", the "Resonate" and the "Pacifico" and will sell in the retail markets in the $55 to $60 range. Converse believes that this casual footwear category is a natural extension of its performance basketball line and retailers are expected to carry this product in either of their performance or casual offerings, or both.

Below is a table that summarizes the incremental sales that are expected through the marketing and product initiatives discussed above.

Financial Impact of Incremental Sales

	Impact 2000	**Impact 2001**
Net Sales	$10,000	$20,000
Cost of Sales	6,800	13,600
Margin Improvement Program	(1,500)	---
Gross Profit	4,700	6,400
Operating Expense	(500)	(1,000)
Operating Income	$ 4,200	$ 5,400

Conclusions

As detailed in the restructuring plan described above and the Strategic Plan contained herein, this transaction will provide Converse with the opportunity to return its operations to profitability and significantly clean up its balance sheet. Converse has estimated that the total cost of the restructuring will be approximately $9.5 million, in the form of one-time charges. Converse has estimated that the gross benefit will be in excess of $20 million dollars per year from cost savings and incremental revenues.

If the restructuring plan is not successful, the worst-case scenario would result in; (i) the sale or licensing of the Company's manufacturing operations or sourcing of manufacturing in Asia, or (ii) the discontinued operations of and orderly liquidation of Converse. Since this subsidiary is a licensee of the marks, the license would be terminated upon such an insolvency event, or, if not permitted to be terminated, the Master License is non-exclusive and Manager, or Back-up Manager, as the case may be, will enter into overseas licensing/sourcing agreements to produce footwear more competitively. Therefore, the Manager, would then have the ability to license the mark elsewhere and continue to oversee the distribution of footwear and apparel throughout the world, thereby retaining ownership and control of what may be considered the most important asset of Converse.

Section V: Pro Forma Financial Statements for Chucky Newco, LLC

[forthcoming]

Section VI: Pro Forma Financial Statements for Converse, Inc.

[forthcoming]

Section VII: Risks and Mitigating Factors

Risk 1: Industry Conditions & Trends

Industry Conditions

Since 1997, there has been a significant slowdown in the branded athletic footwear industry, led by the diminishing importance of basketball shoes worn casually all over the world. The slowdown has been magnified by the economic problems being experienced in the Southeast Asia and Latin America regions. This weakening demand has led to an excessive amount of retail inventory levels of athletic footwear.

Despite a strong U.S. economy, low unemployment, little inflation, relatively low interest rates and a strong stock market, the U.S. retail market faces a difficult operating environment. Experts predict the declination of consumer spending per capita and a shifting of consumer discretionary spending toward services, entertainment, electronics, travel and more savings. Under these conditions, the retail environment will be under intense pressure to maintain margins.

In addition, while the worst of the Asian economic crisis may be over, it will take time for those economies to improve so consumer disposable incomes in this region are still at relatively low levels. European economies are still plagued by high unemployment, inefficiencies, and tax policies that hamper growth in consumers' disposable income. However the European trade pact and unified currency (Euro) will help to contribute to an environment more conducive to growth for U.S. manufacturers.

However, The International Monetary Fund (IMF) estimate that the world economy would only expand by 2.2% in real terms in 1999 has been upwardly revised to a global growth of about 3% and current projections for 2000 are estimated at a growth rate of 3.5%.

Through highly diversified worldwide sales, there is a natural counter-balance in Converse's Income Statement that mitigates the risk of a major down turn in any one country or economy. In addition, Converse plans to expand its licensing operations to further diversify its worldwide sales.

Competition/Changes in Consumer Preferences

The branded athletic footwear industry is highly competitive. Success depends on the ability to anticipate and respond to changing merchandise trends and consumer preferences and demands in a timely manner. If Converse fails to anticipate and respond to changing trends and consumer preferences and demands, consumer acceptance of the Converse brand name and product line could be adversely affected.

Converse is ultimately sheltered from the worst-case effect of changing consumer preferences through minimum royalty, sales or purchase requirements in each licensee contract. In addition, under the terms of these licensing agreements, all products designed by licensees, as well as the related advertising, must be approved in advance by Converse, thereby protecting the Brand on a longer-term basis. This risk is further mitigated by Converse's ability to terminate the licenses and enter into agreements with new licensees that are more adaptable and aware of current trends.

Finally, Converse enjoys a unique market position that greatly reduces Converse's risk to changing market trends. Converse's cash cow, the Chuck Taylor® All Star® as sold successfully for 82 years without any material change or modification to style. In fact, the Chuck Taylor® All Star® is the all time best selling athletic shoe.

Risk 2: License Renewal Risk

As with any licensing transaction, there is renewal risk that future licensing income may not be available without continuous renewal of existing licensees and exploitation of new licensing opportunities.

Converse has proven over more than 10 years of licensing history that it has managed renewal risk well and exploited the right kinds of opportunities to license additional products, without any dilution to the brand equity. The Converse Brand is one of longest standing apparel brands known throughout the world, ranked 6th by retailers in the athletic apparel category (Jassin O'Rourke survey) and 61st by consumers in brand recognition (1999 Fairchild 100 Consumer Survey). This recognition factor is one reason why licensees seek out the Converse brand for new licensing opportunities and renewals.

Risk 3: Creditworthiness of the Licensees

With cash flow preservation being paramount in this transaction, the risk that the payees of the royalties are solvent is a risk. Ideally, you would want the payees to be publicly traded and rated companies. Unfortunately, this industry is still highly fragmented. Of Converse's top 20 major licensees, 17 are privately held.

Fortunately, Converse has had licensing relationships with most of these companies for many years and longevity of these relationships is a measure of credit worthiness. The average length of time of the Converse licensee relationship is more than 6 years. For a list of Converse's major licensees see Appendix B.

This risk is also mitigated by Converse's ability to immediately terminate licensees who default on their contractual obligations or become insolvent. Historically, Converse has replaced licensees after termination within three to six months.

Risk 4: Economic Conditions & Seasonality

Converse and the footwear industry are dependent on the economic environment and levels of consumer spending which affect not only the ultimate consumer, but also retailers, Converse's primary direct customers. Downward trends in the economy or events that adversely affect the economy in general, may adversely affect Converse's results. Sales of Converse's footwear products are somewhat seasonal in nature with the strongest sales generally occurring in the first and third quarters. Any prolonged economic downturn or changes in consumer spending patterns could have an adverse effect on the Company's business. This risk is mitigated by the fact that Converse sells in almost every continent.

Risk 5: International Sales & Foreign Production

International sales represent a significant portion of Converse's net sales. International sales are made through Company owned subsidiaries denominated in local currencies and through independent distributors denominated in U.S. dollars. *NOTE: As part of the Restructuring Plan, certain foreign Converse subsidiaries will be sold and thereby converted to licensees. Therefore Converse's exposure to local currencies will lessen, as Converse will no longer be required to fund locally and repatriate income, but rather Converse will receive license royalty payments versus working capital requirements of the current company owned subsidiaries.*

Converse's future operating results will depend, in part, on Converse's ability to maintain or replace independent distributor relationships in key markets as existing agreements expire. Additionally, changes in demand resulting from fluctuations in currency exchange rates may affect Converse's international sales. All distributor sales are denominated in U.S. dollars and an increase in the value of the U.S. dollar relative

to foreign currencies could make Converse products less competitive in those markets. During 1998, Converse used foreign currency options to protect itself from the effect of changes in foreign exchange rates with respect to its key international markets. International sales and operations may also be subject to risks such as the imposition of governmental controls, export license requirements, political instability, trade restrictions, changes in tariffs and difficulties in staffing and operations management. In addition, the laws of certain countries do not protect Converse's product and intellectual property rights to the same extent as the laws of the United States. Any of these factors could have a material adverse effect on Converse.

In certain regions, sourcing/manufacturing in foreign countries has been a key element in the success of the Converse brand in the market due to cheaper labor and supplies and the elimination of high tariffs, both of which reduce operating costs thereby increasing profit margin.

Converse utilizes independent producers located in the Far East, particularly China, Taiwan, Macau, Vietnam and the Philippines to manufacture a significant percentage (46%) of their footwear. They also operate a facility in Mexico for the stitching of canvas uppers for certain athletic originals category footwear. Therefore, the operations are subject to the customary risks of doing business abroad, including fluctuations in the value of currencies, import and export duties and trade barriers (including quotas), restrictions on the transfer of funds, work stoppages and, in certain parts of the world, political instability.

These risks are mitigated by shifting production from country to country as needed. International sourcing has been managed effectively by Converse for the last 20 years.

Risk 6: Foreign Currency Transactions

In order to protect against the volatility associated with earning currency translations of foreign subsidiaries and royalty income earned in currencies other than the US dollar, Converse uses forward foreign exchange contracts and foreign currency options with durations of generally three to twelve months. As part of the Restructuring Plan, certain foreign Converse subsidiaries will be sold and thereby converted to licensees. Therefore Converse's exposure to local currencies will lessen, as Converse will no longer be required to fund locally and repatriate income, but rather Converse will receive license royalty payments versus working capital requirement of the current company owned subsidiaries.

Risk 7: Protection of the Marks

Throughout the apparel and footwear industry, the proliferation of counterfeit products are a major concern, not only due to the lost sales volume but through the potential harm to brand equity.

Converse maintains and preserves its trademarks and registrations and aggressively protects such rights by taking appropriate legal action against infringement, counterfeiting and misuse when warranted. Over the past three years, Converse has seized more than $1.2 million worth of counterfeit products.

As part of its continuing effort to halt sales and distribution of bogus products, in March of 1997 Converse confiscated approximately $250,000 worth of merchandise from American Shoe Corp. in Los Angeles. The seized merchandise was made in China and bound for distribution in California and Mexico. In May of 1997 raids were conducted at footwear manufacturing sites and warehouses belonging to Maytek S.A. de C.V. (Maytek) in San Francisco del Ricon, Guanajato, Mexico, where hundreds of pairs of counterfeit canvas All Star® shoes were found on assembly lines. In August of the same year, approximately 27,000 pairs of bogus Chuck Taylor® All Star® shoes were seized from locations in Bremen and Stuttgart, Germany. The shoes were being offered for sale by Mayer Schuh GmbH, the largest shoe chain in southern Germany. In October of 1997, and again in February of 1998, the Finland National Board of Customs seized approximately $647,000 worth of Converse products, collectively. In both cases the shoes originated in China and were bound for Moscow, Russia. In May of 1998 Converse announced the raid of Chifu International Co. Ltd., a footwear manufacturing site and warehouse in Dongguan City, Guangdong

Province, China, where an undisclosed amount of shoes were confiscated. Most recently, in September of 1999, Converse announced another successful raid against counterfeiters in Indonesia and elsewhere in Southeast Asia. The raid on the factory, owned by C.V. Hasrapan Jaya Utama, netted an undisclosed amount of shoes, components and marketing and sales materials.

In addition to these actions, in January of 1999 Converse announced the implementation of a coding and tracking system designed to thwart parallel and counterfeit product from reaching the marketplace. The new bar coding tracking system, which features both a visible and an invisible label, will be placed on all of Converse's canvas products from the its facilities in Lumberton, N.C., and Mission, Texas.

Risk 8: Implementation of Converse's Strategic Plan

Through Converse's restructuring plan, Converse has isolated the manufacturing operations in such a way that the License Collateral will be unaffected by a bankruptcy or failure of Converse's manufacturing operations. With Converse entering into a structured license agreement, such license is terminable in the case of an insolvency event.

If the restructuring plan is not successful, the worst-case scenario would result in; (i) the sale or licensing of the Company's manufacturing operations, (ii) the orderly liquidation of Converse, (iii) or the bankruptcy of Converse. Since this subsidiary is a licensee of the marks, the license would be terminated upon such an insolvency event, or, if not permitted to be terminated, the Master License is non-exclusive and the Manager, or Back-up Manager, as the case may be, will enter into an overseas licensing/sourcing agreement to produce footwear. The Manager would then have the ability to license the mark elsewhere and continue to oversee the distribution of footwear and apparel throughout the world, thereby retaining ownership and control of what may be considered the most important asset of Converse.

Appendix A: Summary of Terms and Conditions

Manager:	A yet-to-be-formed, wholly owned, licensing subsidiary (the "Manager") of the Company.
Borrower:	A yet-to-be-formed, wholly owned, special-purpose, bankruptcy-remote entity of the Manager.
Lender:	ABC Lending Corporation, a special-purpose, bankruptcy-remote subsidiary of C.A.K. Universal Credit Corporation ("ABC"), incorporated in the State of Delaware (the "Lender").
Loan Transaction:	Subject to the conditions set forth below, the Lender proposes to provide financing (the "Loan") to the Borrower, the net proceeds of which will be made available to the Company (in consideration of the sale or contribution of the Loan Collateral by the Company to the Borrower) for the purpose of refinancing existing indebtedness and providing incremental working capital for the Company and for other general corporate purposes of the Company (see Use of Proceeds). The funding of the Loan shall occur simultaneously with the securitization of the Loan (see Securitization) unless the Company requests and accepts a loan commitment from Lender (see Funding Prior to Securitization.)
Use of Proceeds:	The Borrower and/or Company, as the case may be, shall utilize Loan proceeds from the transaction to: (i) fund the Liquidity Reserve and all transaction related expenses and fees; (ii) redeem, in part, the 15% Senior Secured Notes; (iii) fund $2.5 million to the Manager to capitalize it and finance it through the 30-month restructuring plan; and (iv) apply all remaining balances to revolving loans under the BTCC Credit Facility.
Strategic Plan:	Management shall develop a business strategy and restructuring plan satisfactory to Lender. Such plan shall detail the process through which the Company intends to clean up the balance sheet of the Company and turn the manufacturing operations profitable within a 30-month restructuring period.
Loan Amount:	$85 million U.S., subject to Rating, Securitization and Cash Flow Verification.
Loan Term:	Legal Maturity: 20 years from closing Target Maturity: 10 years from closing
Loan Collateral:	The Loan will be secured by a first priority, perfected (perfection in trademarks shall be limited to those trademarks that are material and those territories in which there are material concentrations, and certain perfections may be obtained post closing) pledge and security interest in all of the assets of the Borrower (Special Purpose Entity), which will include: (i) all trademarks, patents and all existing, renewal and future licenses of the Company (the "License Collateral") and (ii) all related existing, renewal and future license income generated by such License Collateral (the "License Income", License Collateral and License Income collectively, the "Collateral").
Principal and Interest Payments:	The Loan is fully amortizing over the Loan Term and shall be subject to a cash flow sweep as set forth in the "Accelerated Principal Account" section included herein. The principal payments and interest accrued on the Loan will be payable quarterly.

All Loan payments including principal, interest, Accelerated Principal and reserve payments shall be made in US dollars.

Loan Interest Rate: The interest on the Loan shall accrue at the applicable Interest Rate and shall be payable on each quarterly interest payment date and on the Final Maturity date, calculated for the actual number of days elapsed on a 360-day year basis. The Interest Rate shall be a fixed rate determined as of one business day prior to Loan closing.

Determination of the Interest Rate shall consider certain cost components (as discussed herein) including, but not limited to; (i) the cost of the Coupon, (ii) the cost of credit enhancement and (iii) the Loan servicing costs.

Liquidity Reserve: Upon closing of the Loan, the Borrower will be required to fund a Liquidity Reserve in an amount equal to 10% of the Loan Amount or approximately $8.5 million. In the event that the Liquidity Reserve is utilized to make a debt service payment to the Lender, future excess License Income will be used to replenish the Liquidity Reserve to its required level. In no event shall the Liquidity Reserve be maintained with less than 2 times the initial quarterly Debt Service plus Minimum Accelerated Principal payment. Liquidity Reserve funds shall be invested in permitted investments to increase the Liquidity Reserve balance. Upon full payment of the Loan, all outstanding amounts in the Liquidity Reserve will be released to the Borrower. If the balance in the Liquidity Reserve is equal to or more than the principal balance of the Loan, at any time, the Liquidity Reserve shall be used to defease the Loan.

Accelerated Principal Account: An Accelerated Principal account held in the name of Lender will be utilized to accumulate funds from the cash flow generated from the License Collateral for quarterly application to payment of Loan principal.

At closing, Minimum Accelerated Principal payments shall be calculated, such that the Loan is paid in full by the Target maturity Date (10 years from closing).

Non-payment of a Minimum Accelerated Principal payment will not constitute an event of default. The Manager's Administration Fees, as defined herein, will be subordinate to the Minimum Accelerated Principal payments. Minimum Accelerated Principal payment short falls for any scheduled period shall carry over to the scheduled Minimum Accelerated Principal amount(s) for the subsequent payment period(s).

Maximum Accelerated Principal Payments will be limited to 9.5% of the original Loan balance, such that the average life of the loan is no less than 5.0 years, as calculated on each payment date.

Recourse Provisions: With the exception of losses and expenses incurred by the Lender as a result of fraud, material misrepresentation, funds misappropriation or misapplication, intentional contest of the first priority security interest or any other lien of the Lender in the License Collateral or any other collateral or any intentional action by the Borrower which results in a delay in Lender exercising any of its rights under the Transaction Documents, or intentional and material damage to the License Collateral, the Loan shall be non-recourse to the Borrower.

There shall be no recourse to the Company with respect to the Loan. However, there shall be recourse to the Company under the sale, management and servicing documents for fraud, material misrepresentation, funds misappropriation or

misapplication, intentional contest of the first priority security interest or any other lien of the Lender in the License Collateral or any other collateral or any intentional action by the Company which results in a delay in the Lender exercising any of its rights under the Transaction Documents, or intentional and material damage to the License Collateral.

Cash Flow Verification Requirement:

It is understood and agreed that the amount of the Loan shall not exceed 75% of the asset valuation of the License Collateral (the "Maximum LTV") as determined by the Lender.

In addition, as it relates to debt service on the Loan, the loan debt service coverage ratio (calculated as Gross Margin divided by Debt Service, the "Loan DSCR") shall be 1.30:1.00 (the "Minimum DSCR") or greater based in part on the underwritable cash flow generated by the License Collateral, (underwritable cash flow is defined, for licensing assets, as Gross Margin, which is equal to gross royalty revenues less international tax withholdings) as determined by the Lender and the greater of the Loan Interest Rate constant which will be determined at Rate Lock or [12.00%].

For the purpose of the Cash Flow Verification Requirement and all relevant covenant calculations relating to the Loan, debt service (the "Debt Service") is defined as the aggregate cash payments for all scheduled principal (based on dynamic 20-year amortization table, meaning that the required principal payment is recalculated each payment date based upon current principal balance and time remaining until Legal Maturity) and interest payments.

For the first twelve months of the Loan, a pro forma twelve month rolling average will be used. At closing, Borrower must demonstrate, to Lender's satisfaction, that the License Collateral generates an average minimum Gross Margin available for Debt Service Payments of (i) $13,800,000 annually at closing and (ii) $14,000,000 annually projected for the term of the Loan, after adjustments for Lender's underwriting criteria.

Collateral Maintenance:

If the Collateral debt service coverage ratio (calculated as Gross Margin divided by Debt Service during the first 30 months of the transaction, and as Gross Margin divided by Debt Service <u>plus</u> Minimum Accelerated Principal payments thereafter, the "Collateral DSCR") generated by the License Collateral falls below 1.10:1.00, the License Collateral will be subject to placement with a Back-up Manager, as outlined below under "Remedies", in order to improve the administration and exploitation of the License Collateral (the "Trigger Date").

If at any time during the Loan Term, the Loan has a Loan DSCR below 1.00:1.00 (the "Default Date"), the Loan will be subject to (i) an amortization event (full cash sweep to principal amortization), (ii) placement with a Back-up Manager, and (iii) an immediate liquidation by the Back-up Manager, as outlined below under "Remedies".

For purposes of this provision, the DSCR, shall be determined on a twelve month rolling average basis. For the first twelve months of the Loan, a pro forma twelve month rolling average will be used.

REMEDIES:
Upon a Trigger Date, as an alternative to placement with a Back-up Manager, or upon a Default Date, as an alternative to items (i), (ii) and (iii) in the paragraph above in which "Default Date" is defined, the Borrower may pledge additional

eligible collateral acceptable to Lender in its reasonable discretion or cash reserves in order to restore the DSCR to the level at which the Loan was originally underwritten.

Management Agreement & Manager Qualifications:

The Manager shall enter into a Management Agreement with the Borrower and Lender to administer and exploit the License Collateral on a Best Efforts Basis. As compensation under such Management Agreement, the Manager shall be paid a nominal administration fee of $15,000 per quarter (the "Administration Fees") plus an excess administration fee, as follows; (i) during the first 30 months, an aggregate amount of no more than 12.5% of gross revenue, payable from Gross Margin and (ii) beginning after the 30th month (to coincide with the Company's first royalty payment due under the Master License), the first $1,500,000 in Gross Margin over $14 million per year <u>plus</u> an aggregate amount of no more than 12.5% of gross revenue, payable from Gross Margin in excess of $15.5 million, and as defined further in the Transaction Documents (the "Excess Administration Fees").

The Management Agreement shall be drafted on market terms and conditions, and it shall define the qualifications necessary for the manager of the License Collateral (the "Qualified Manager"). Such qualifications shall include: (i) having positive consolidated Net Income from continuing operations; (ii) having positive consolidated Net Worth; (iii) no Debts other than those entered in the ordinary course of business; (iv) maintaining SPE status; and (v) any other market-rate qualifications, as Lender deems necessary.

For qualification (i) above, consolidated Net Income from continuing operations shall mean, for any period, the consolidated net income (or loss) from continuing operations of the Manager and its consolidated subsidiaries for such period, excluding (i) gains or losses from dispositions of assets, (ii) any extraordinary items, and (iii) other non-recurring items not related to operations.

To ensure that the Manager maintains its Qualified Manager status, at closing, and on a quarterly, going-forward basis, the Manager's accountant shall be required to issue a statement to the Lender qualifying the Manager with respect to its designation as a Qualified Manager. The Lender, shall reasonably allow for certain waivers and exceptions to the Qualified Manager requirements through the Loan Term.

The Management Agreement will be pledged as additional collateral for the Loan, and ABC shall have a first priority perfected security interest in the rights under the Management Agreement. Upon the occurrence of an event of default, ABC shall have the right to terminate the Management Agreement.

Master License:

The Company shall enter into a Master License Agreement with the Borrower on market terms. The Master License Agreement will grant the Company the right to manufacture and distribute footwear product in the United States, as the Company currently does through its ordinary course of business.

The Master License Agreement will be royalty free for 30-months and self-renewing into perpetuity, subject to certain retail sales performance criteria (to be negotiated). Thereafter, the Master License shall call for a Net Royalty Rate of 0.5% of Net Sales. The Net Royalty shall be calculated from a gross royalty rate, less consideration for continued, minimum advertising and research & development expenditures made by Converse in support of the brand, in addition to a credit for past expenditures of Converse's, made throughout its 92-year operating history, to develop and support the brand.

In the event that the Master License is terminated, to ensure that there is minimal disruption and erosion in the value of the Company's collateral under the BTCC facility, the Master License shall contain standard provisions allowing for an adequate period of time for orderly liquidation of the inventory collateral. The Manager or Back-up Manager, as the case may be, shall make a reasonable attempt to include the advance purchase of such inventory in the agreement(s) executed by successor licensee(s) or retailer(s), as contemplated herein (see Management Agreement, Back-up Manager and Retail Put Contract).

The Master License shall be included in the License Collateral. As such the royalty will be subject to the Transaction Waterfall, and should (if all other Licensing Income is sufficient cover required payments in the waterfall) return to the Manager in the form of the Administration Fee and Excess Administration Fees.

The Master License Agreement shall be drafted on market terms and conditions, and it shall define the qualifications necessary for a master licensee of the Trademarks (the "Qualified Master Licensee"). Such qualifications shall include: (i) having positive Consolidated Net Income from continuing operations before extraordinary items; (ii) having no monetary events of default on all material debts); (iii) maintaining solvency and not filing any voluntary bankruptcy or permitting continuation of any involuntary bankruptcy; and (iv) any other market-rate qualifications, as Lender deems necessary. The Master License Agreement shall have standard and reasonable cure rights acceptable to the Licensee.

For qualification (i) above, Consolidated Net Income from continuing operations shall mean, for any period, the consolidated net income (or loss) from continuing operations of Converse, Inc. and its consolidated Subsidiaries for such period, excluding (i) gains or losses from dispositions of assets, (ii) deferred tax valuation credit or expense, (iii) any extraordinary items, (iv) non-cash (paid in kind) dividends from qualified preferred stock offerings (i.e., having a maturity beyond the Target Maturity); and (v) other non-recurring items not related to operations; and Subsidiaries shall be defined to include all subsidiaries of the Company consolidated for tax purposes and which are subject to the BTCC credit facility.

To ensure that the Company maintains its Qualified Master Licensee status, at closing, and on a quarterly, going-forward basis, the Master Licensee's accountant shall be required to issue a statement to the Manager qualifying the Master Licensee with respect to its designation as a Qualified Master Licensee. For the purposes of determining the Qualified Master Licensee status of the Company, the Company must fail to comply with item (i) above for two consecutive Test Dates. The Lender, at its sole discretion, shall reasonably allow for certain waivers and exceptions to the Qualified Master Licensee requirements through the Loan Term. The Lender shall agree to waive the qualifications for the first 30 months of the transaction so long as the Company can demonstrate at closing sufficient operating liquidity, to cover operating losses through the first 30-months. After the first 30 months the Master Licensee's accountant shall confirm Master Licensee's qualifications based upon the following table:

Test Date:
Period Tested:

End of 33rd month
trailing 3 months

End of 36rd month
trailing 6 months

End of 39rd month
trailing 9 months

Thereafter
trailing 12 months

Manufacturing & Sourcing Agreement: The Borrower shall enter into a Manufacturing & Sourcing Agreement with the Company on market terms. The Manufacturing & Sourcing Agreement will grant the Company the non-exclusive right, and impose upon the Company the obligation, to fulfill the footwear distribution components under those licensing agreements which are denominated "Manufacturing, Distribution & License Agreements" and which provide for the distribution to the licensees of footwear manufactured or otherwise sourced by the Company.

The Manufacturing and Sourcing Agreement shall have standard and reasonable cure rights acceptable to the Company.

Back-up Manager: The Borrower and the Lender shall enter into a Back-up Manager Agreement with a qualified Back-up Manager selected by Lender. The terms and conditions of such agreement shall be customary for the transaction contemplated herein and shall include a full indemnification of the Back-up Manager by the Company, the Manager and the Borrower.

Upon replacement of the Manager, the Back-up Manager will be responsible for overseeing existing licenses and sub-licenses through maturity and negotiating new licenses, renewals and the Retail Put Contract (see below).

Retail Put Contract: Upon the termination of the Manager, as provided for herein, the Lender shall have the right to put a master license to one of either; (i) Wal-Mart Stores, Inc. (Moody's rating: Aa2), (ii) The TJX Companies, Inc. (A3), (iii) Sears Roebuck & Co. (A2), (iv) Dayton Hudson Corporation (A3), (v) J.C. Penney Company, Inc. (A2), (vi) Costco Companies, Inc. (A2) or (vii) an equivalent retailer, at the sole discretion of the Lender, under the advice of the Back-up Manager, as provided for in the Transaction Documents. The Retail Put Contract will allow for the master licensor to assume all existing sub-licenses (including, without limitation, the Master License in favor of the Company) upon maturity/cancellation.

Upon full repayment of the Loan all rights of the Manager, will revert back to the Manager.

Rating: A minimum rating of the transaction for the Loan of "A", or equivalent from Moody's Investors Services, Fitch IBCA, Duff & Phelps or Standard & Poor's, without regard to any credit enhancements, as allowed below.

Funding of Loan Prior to Securitization: If the Borrower shall so request in writing, Lender may, at it sole option, commit to, and fund, the Loan prior to Securitzation.

Securitization: Simultaneous with the closing of the Loan, the Lender will securitize the Loan as a Single Loan Transaction through a Trust structure. The Trust certificates (the "Certificates") will be secured in whole by all rights and security granted by the

Loan with relation to the License Collateral.

The Borrower agrees to fully cooperate with the Lender to facilitate the rating and securitization of the Loan and shall provide Lender with opinions from its counsel and indemnifications that are customary in such transactions.

Tranching: The Lender reserves the right to tranche the Certificates into multiple classes, with distinct coupons and terms. Such coupons and terms shall be structured at the Lender's discretion within the parameters dictated by the Loan Documents.

Credit Enhancement: The Lender reserves the right to request proposals from banks, monoline insurance companies or equivalents, to provide a credit enhancement for the transaction. In the event of Debt Defeasance, as allowed below, Borrower will be responsible for any related make-whole payments.

Prepayment Premium: Prepayment of the Loan is permitted at any time during the Loan Term subject to yield maintenance, discounted at 3-month LIBOR as of the closing date of the Loan, up to the Target Maturity date; thereafter the Loan may be prepaid without penalty. In the event that the Loan is not satisfied within 90 days of the Target Maturity date of the Loan, the Loan Interest Rate will convert to a new rate (the "Revised Loan Interest Rate") and the Loan may be subject to a 2% extension fee on the original Loan principal.

Revised Loan Interest Rate: The Revised Loan Interest Rate shall be a fixed rate equal to the greater of (i) the Loan Interest Rate plus 200 basis points or (ii) 500 basis points in excess of the yield on a comparable US Treasury security having a term equal to the remaining term of the Loan.

Debt Defeasance: The Loan shall provide for defeasance at any time after closing. Under defeasance, the Borrower must post risk-free collateral (the form acceptable to the Lender) that will provide sufficient cash flow to make the remaining Loan interest payments and principal payments. In such case, the Lender will release its lien on the License Collateral; however, the debt shall remain outstanding, secured by the defeasance collateral.

The Borrower shall pay all out-of-pocket costs of Lender, including reasonable legal fees, incurred in connection with the defeasance plus a processing fee payable to the Servicer of .25% on the outstanding principal balance at the date of defeasance.

On each payment date ABC shall calculate the amount of collateral required for defeasance. Should the Loan Reserve balances be greater than or equal to the amount calculated, the Loan shall self-defease.

Assignment: The Loan and Management Agreement shall provide for assignment on terms and conditions mutually acceptable to Lender and Company.

Servicer: ABC Servicing Company, LLC, incorporated in the State of Delaware.

Servicing/Lockbox: ABC Servicing Company, LLC. will act as Servicer of the Loan and be responsible for the collection, allocation and audit of Loan payments. All License Income will be directed to a lockbox account held in the name of the Borrower in the sole control and dominion of the Lender. On a quarterly basis, the License Income lockbox receipts will be disbursed to the Lender for required reimbursement for the Borrower's cost allocation as set forth herein and more fully in the Loan documents and debt service including Accelerated Principal

Account payments and any other payments due under the Loan, the balance, if any, shall be released to the Borrower pursuant to the Management Agreement between Borrower and Company.

Any funds held in the lockbox shall be invested in permitted investments.

Lockbox Allocations: The Lender shall reimburse, on a first priority basis, the Borrower from amounts in the Lockbox for allocated costs in determining the Gross Margin. Such allocated costs shall include foreign income tax obligations. Such allocations shall be established in a manner satisfactory to the Borrower and Lender.

Transaction Waterfall: Subject to final structuring and documentation of the Transaction, cash collections to the Lockbox shall be allocated on a priority basis to the Distribution Account, as follows:

1) Lockbox Allocations (withholding taxes and advertising costs)
2) Trustee fees
3) Reimbursement of credit enhancement draws (if applicable)
4) Credit enhancement premiums (if applicable)
5) Loan servicing fees
6) Loan interest payments
7) Loan principal payments
8) Minimum Accelerated Principal Payments (principal payments necessary to repay the Loan by the 10-year Expected Maturity)
9) Replenishment of Liquidity Reserve
10) Administration (Management) Fees ($15,000 per quarter)
11) Excess Administration Fees (as defined herein)
12) Excess Accelerated Principal payments up to Maximum Accelerated Principal Payments (9.5% maximum amount, plus previous period shortfalls, to preserve an average life of no less than 5-years)
13) After application to the foregoing, it is contemplated that the Transaction and Transaction Waterfall shall provide for release of excess cash balances to the Manager.

Subordinate Financing: Subordinate Financing of any kind shall not be permitted upon the License Collateral.

Transaction Documents: Loan documents (collectively, the "Transaction Documents") shall be forthcoming and in the form and substance acceptable to the Lender and its counsel.

Expenses: All costs and expenses of the Lender in connection with the underwriting, closing, securitization, administration and enforcement of the Loan including, without limitation, reasonable legal fees, reasonable Lender underwriting fees, trustee fees, ratings agency fees and the reasonable fees of any asset valuation expert and apparel industry consultant who may be hired by the Lender at its discretion to review the License Collateral shall be reimbursable and/or payable by the Borrower, upon demand by Lender.

Representations & Warranties: Standard, as customary for transactions of this scope and nature.

Indemnification: Standard, as customary for transactions of this scope and nature.

Events of Defaults: Standard, as customary for transactions of this scope and nature.

All monetary defaults are curable for 10 days after the Lender has notified the Borrower. All non-monetary defaults are curable for 30 days after the Lender has notified the Borrower or for 60 days if the Borrower is diligently attempting to cure the default.

Conditions Precedent to Funding:

All of the following must be provided to the satisfaction of the Lender:

1) Asset valuation report of the Collateral prepared by a Lender-approved asset valuation specialist;
2) Industry consultant's due diligence report prepared by a Lender-approved apparel industry consultant;
3) Five years of audited royalty income, including any explanation of extraordinary revenue and expense items;
4) Evidence of a 30-month, viable business plan, restructuring plan and turnaround strategy for the Company;
5) Evidence of funding of $2.5 million of equity capital in the Manager from Loan Proceeds;
6) Evidence of all necessary consents from creditors, releasing all liens and/or claims on the Collateral and recognizing ABC's security interest;
7) A rating of the transaction of "A" or better from two rating agencies, without regard to any credit enhancements, as allowed herein;
8) Copy of management/administration agreement(s) for the Collateral; and
9) Such other documents, agreements and statements as may be customary for transactions of this scope and nature, and reasonably requested by the Lender.

Security Interest:

1) ABC-1 financing statements for all of the License Collateral;
2) A first security interest in and any assignment of any accounts receivable due to the Borrower and first security interest in material trademarks;
3) A general assignment of all related License Income due to the Borrower;
4) A first priority perfected security interest in a general assignment of all related licenses and contracts of the Borrower; and
5) Such other documents as Lender's counsel deems necessary to secure the Loan.

Appendix B: License Summary Contract Terms

[forthcoming]

Appendix C: Management's Discussion & Analysis

Summary Financial History & Projections

[forthcoming]

Comparison of nine months ended October 2, 1999 to nine months ended October 3, 1998

The following table sets forth certain items relating to the Company's operating results as a percentage of net sales for the nine months ended October 2, 1999 ("Nine Months 1999") and for the nine months ended October 3, 1998 ("Nine Months 1998").

	Nine Months Ended			
	October 2, 1999	**%**	**October 3, 1998**	**%**
	(Dollars in thousands, except per share amounts)			
Net sales	$188,202	100.0	$251,877	100.0
Gross profit	48,629	25.8	63,596	25.2
Selling, general and administrative expenses	60,963	32.4	71,601	28.4
Royalty income	15,033	8.0	14,014	5.6
Loss on sale of foreign subsidiaries	543	0.3	---	---
Earnings from operations	2,156	1.1	6,009	2.4
Interest expense, net	16,194	8.6	13,321	5.3
Other (income) expense, net	430	0.2	(642)	(0.3)
Loss from continuing operations before income tax	(14,468)	(7.7)	(6,670)	(2.6)
Income tax expense	2,927	1.6	987	0.4
Loss from continuing operations	(17,395)	(9.2)	(7,657)	(3.0)
Extraordinary gain, net of tax of $437	---	---	704	0.3
Net loss	$(17,395)	(9.2)	$ (6,953)	(2.8)
EBITDA	$ 3,728		$ 8,187	
Proforma EBITDA	$ 4,271		$ 8,492	

Net Sales

Net sales for Nine Months 1999 decreased to $188.2 million from $251.9 million for Nine Months 1998, a decline of 25.3%. The $63.7 million decrease in net sales was attributable to declines of 42.9%, 34.4%, 25.7% and 21.4% in the cross training, children's, basketball and athletic originals categories, respectively, compared to the prior year. These decreases were partially offset by a 22.0% increase in the action sports category.

Net sales in the United States decreased 23.9% to $104.5 million for Nine Months 1999 from $137.3 million for Nine Months 1998. The decline was primarily due to a reduction of $13.8 million, or 30.4%, in the athletic originals category as well as reductions of 34.3%, 28.7% and 16.2% in the cross training, children's and basketball categories, respectively, compared to the prior year.

Net sales decreased internationally 27.0% from $114.6 million for Nine Months 1998 to $83.7 million for Nine Months 1999. The major reduction was in the athletic originals category which declined $12.3 million, or 16.3%, while the cross training, basketball and children's categories declined 68.0%, 62.9% and 48.7%, respectively, compared to the prior year. Net sales in the Pacific region declined 36.6% for Nine Months 1999 from the prior year primarily in the athletic originals category. Net sales in the E.M.E.A. region were down 20.8% mainly due to the conversion of subsidiaries in Spain and Portugal.

Gross Profit

Gross profit decreased to $48.6 million for Nine Months 1999 from $63.6 million for Nine Months 1998, a reduction of 23.6% primarily due to reduced sales volume. As a percentage of net sales, gross profit increased slightly to 25.8% for Nine Months 1999 from 25.2% in the prior year. The increase is due to the slight improvement in the athletic footwear market and the lower sell-off of unsold inventory in the Company's basketball and children's categories.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 14.8% to $61.0 million for Nine Months 1999 from $71.6 million for Nine Months 1998. The decrease of $10.6 million was the result of reduced spending across all of the Company's functions. As a percentage of net sales, selling, general and administrative expenses increased to 32.4% for Nine Months 1999 from 28.4% in the prior year. Nine Months 1998 expenses include a one-time credit of $9.0 million resulting from the reversal of accruals associated with the curtailment of the Company's post retirement medical benefit plan. Excluding this one-time credit, the decrease in selling, general and administrative expenses would have been $19.6 million, or 24.3% for Nine Months 1999 compared to the prior year.

In the United States, spending for advertising and marketing was reduced by $5.1 million, or 27.3%, and direct sales expenses decreased by $3.3 million, or 20.9%, for Nine Months 1999 from the prior year. Research and development costs decreased to $4.6 million for Nine Months 1999 from $5.3 million for Nine Months 1998, a decrease of 13.2%. Administrative expenses in the United States decreased by $1.6 million or 10.7%

Selling, general and administrative expenses decreased internationally by $8.1 million, or 27.7%, for Nine Months 1999 compared to the prior year. Expenses in the E.M.E.A. region were reduced by $6.8 million, or 33.7%, partly the result of the conversion of subsidiaries in Spain and Portugal. The Pacific and Latin America regions also recorded slight reductions.

Royalty Income

Royalty income increased 7.1% to $15.0 million for Nine Months 1999 from $14.0 million for Nine Months 1998. The increase of $1.0 million was due to increased income from the Southeast Asia and Japanese regions. Converse utilizes licensees who manufacture or purchase and distribute sports apparel, accessories and selected footwear to provide consumers head-to-toe Converse-branded products globally. As a percentage of net sales, royalty income increased to 8.0% for Nine Months 1999 from 5.6% for Nine Months 1998.

International royalty income, which represented 82.9% of Converse's total royalty income, increased 10.0% for Nine Months 1999 primarily as a result of increases of 26.8% and 10.2% in the Southeast Asia and Japan regions, respectively, compared to Nine Months 1998. The increases are representative of the recovery of the economies in Southeast Asia and the weakening of the U.S. dollar.

The Japanese region increased from $5.7 million for Nine Months 1998 to $6.2 million for Nine Months 1999, an increase of 8.8%. The Japanese region increase was primarily attributable to a royalty income increase from Moonstar, Converse's footwear licensee in that region. Licensing income derived from Moonstar increased $1.3 million for Nine Months 1999, to $3.0 million, from $1.7 million in the prior year.

The 26.9% increase in Southeast Asia region was primarily attributable to royalty income increases of 29.5%, 126.3, 45.4%, and 12.9% for Conquest Sports (Australia), Kumhwa Sports (South Korea), Tactic (Thailand), and Taishoe (Taiwan), respectively. The increases were the result of the recovery of the relevant economies and the weakening of the U.S. dollar.

The increase in the Europe, Middle East and Africa region was 8.7%. The improved royalty income was derived from Sportil (Spain/Portugal) which generated $0.4 million of increased royalty income. Converse

converted its Spain/Portugal operating unit to licensee agreement effective January 1999. The E.M.E.A. region was negatively impacted by weaker royalty income from Athanassapoulos (Greece) down 65.6%.

Royalty income for the Latin America region declined from Nine Months 1998 to Nine Months 1999. The 16.5% decline in royalty income was attributable to a decline of 32.5% from Deportes Jimmy (Panama) and 60.7% from Sporchil (Chile).

Domestic royalty income declined 6.0% in Nine Months 1999 from that in Nine Months 1998. The decline was primarily the result of weaker royalty income from Moshay (apparel) and REM Optical (eyewear).

Loss on Sale of Foreign Subsidiaries

In the second quarter of 1999, the Company recorded a pretax loss totaling $0.5 million related to the conversion of its Canada operation from a Company owned subsidiary (direct operating unit) to a third party licensee/distributor arrangement.

Earnings from Operations

The Company recorded earnings from operations of $2.2 million for Nine Months 1999 compared to $6.0 million for Nine Months 1998 primarily the result of the factors discussed above. As a percentage of net sales, earnings from operations were 1.1% and 2.4% for Nine Months 1999 and Nine Months 1998, respectively.

Interest Expense

Interest expense for Nine Months 1999 increased to $16.2 million from $13.3 million for Nine Months 1998, a 21.8% increase. The increase reflects the higher borrowing levels for Nine Months 1999 compared to the prior year as well as higher interest costs associated with the secured notes issued in September 1998.

Other (Income) Expense

Other expense for Nine Months 1999 of $0.4 million was primarily comprised of one-time legal settlement of $1.0 million partially offset by gains realized from foreign exchange contracts and put options. Nine Months 1998 other income of $0.6 million was primarily related to the May 1998 sale of the Company's Reynosa, Mexico manufacturing facility.

Income Tax Expense

Income tax expense for Nine Months 1999 was $2.9 million compared to $1.0 million for Nine Months 1998. The Company continued to increase its deferred tax valuation reserve and established additional valuation allowances of $7.0 million in Nine Months 1999 and $2.9 million in Nine Months 1998, representing approximately the tax benefit of the nine month losses.

Loss from Continuing Operations

Primarily as a result of the factors discussed above, the Company recorded a loss from continuing operations for Nine Months 1999 of $17.4 million compared to a loss of $7.7 million for Nine Months 1998. The loss from continuing operations for Nine Months 1999 included a charge of $7.0 million to increase the deferred tax valuation reserve and a loss of $0.3 million net of tax from the sale of foreign subsidiaries. The loss from continuing operations for Nine Months 1998 included a charge of $2.9 million to increase the deferred tax valuation reserve. Excluding these charges, the loss from continuing operations was $10.1 million and $4.8 million for Nine Months 1999 and Nine Months 1998, respectively.

Extraordinary (Gain) Loss, net of tax

During Nine Months 1998, the Company reported an extraordinary gain of $0.7 million, net of tax. The extraordinary gain related to cancellation of outstanding convertible subordinated notes of the Company exchanged for newly issued secured notes, net of financing fees that were written off in connection with the debt transactions.

Net Loss

The Company recorded a net loss for Nine Months 1999 of $17.4 million compared to a net loss of $7.0 million for Nine Months 1998. The net loss for Nine Months 1999 included a charge of $7.0 million to increase the deferred tax valuation reserve and a loss of $0.3 million from the sales of foreign subsidiaries. The net loss for Nine Months 1998 included a charge of $2.9 million to increase the deferred tax valuation reserve and the extraordinary gain of $0.7 million. Excluding these charges and extraordinary gain, the net loss was $10.1 million and $4.8 million for Nine Months 1999 and Nine Months 1998, respectively.

The following table sets forth EBITDA with proforma adjustments for Nine Months Ended October 2, 1999 and Nine Months Ended October 3, 1998:

	Nine Months Ended	
	October 2, 1999	October 3, 1998
Net earnings (loss) from continuing operations	$ (17,395)	$ (7,657)
Interest expense	16,194	13,321
Tax provision	2,927	987
Depreciation	3,410	2,743
Amortization	(1,408)	(1,207)
EBITDA	3,728	8,187
Gross proforma adjustments:		
Restructuring expense	---	---
Credit on investment in unconsolidated subsidiary	---	---
Loss on sale of foreign subsidiaries	543	305
Proforma EBITDA	$ 4,271	$ 8,492

Nine Months Ended October 2, 1999 Proforma Adjustments

Deferred Tax Valuation

Converse continued to increase its tax valuation allowance during 1999 and incurred a related charge of $7.0 million to income tax expense.

Loss on Sale of Foreign Subsidiaries

During the second quarter of 1999, Converse recorded a pretax loss of $0.5 million related to conversion costs of its subsidiaries in Spain, Portugal and Canada from Company-owned direct operating units to third party licensee/distributor arrangements.

Nine Months Ended October 3, 1998 Proforma Adjustments

Loss on Sale of Foreign Subsidiaries

During the third quarter of 1998, Converse closed its subsidiary in Japan resulting in a pretax charge of $0.3 million to write-off the balance of cumulative foreign currency translation adjustments.

Comparison of Fiscal 1998 and Fiscal 1997

The following table sets forth certain items related to operations and such items as a percentage of net sales for Fiscal 1998 and Fiscal 1997:

	Fiscal Year Ended			
	January 2, 1999	%	January 3, 1998	%
	(Dollars in thousands, except per share amounts)			
Net sales	$308,353	100.0	$450,199	100.0
Gross profit	70,682	22.9	120,941	26.9
Selling, general and administrative expenses	92,683	30.1	127,261	28.3
Royalty income	20,175	6.5	22,569	5.0
Restructuring expenses	---	---	1,537	0.3
Earnings (loss) from operations	(1,826)	(0.6)	14,712	3.3
(Credit) on investment in unconsolidated subsidiary	---	---	(12,537)	(2.8)
Interest expense, net	17,525	5.7	15,374	3.4
Other expense	596	0.2	3,026	0.7
Earnings (loss) from continuing operations before income tax	(19,947)	(6.5)	8,849	2.0
Income tax expense	3,572	1.2	13,154	2.9
Loss from continuing operations	(23,519)	(7.6)	(4,305)	(1.0)
Extraordinary (gain) loss, net of tax	(704)	(0.2)	744	0.2
Net loss	$(22,815)	(7.4)	$ (5,049)	(1.1)
EBITDA	$(93)		$ 26,283	
Proforma EBITDA	$ 285		$ 15,283	

Net Sales

Net sales for Fiscal 1998 decreased to $308.4 million from $450.2 million in Fiscal 1997, a 31.5% reduction. The $141.8 million net sales reduction in Fiscal 1998 is attributable to decreases of 53.7%, 51.1%, 37.7% and 2.8% in the basketball, children's, cross training and athletic originals categories, respectively, compared to Fiscal 1997. These decreases were partially offset by a $7.0 million increase in Converse's new action sports category.

Net sales in the United States decreased 41.5% to $166.6 million for Fiscal 1998 from $284.9 million for Fiscal 1997. The decline in net sales was affected by the athletic footwear and apparel industry slowdown in branded athletic sales, particularly in the adult's and children's basketball and cross training product categories, due to softening consumer demand. Domestic net sales declined 53.8% in the basketball category, 54.5% in children's (which is mainly comprised of takedowns of basketball and cross training models) and 33.3% in the cross training category. The athletic originals category, less affected by the industry slowdown, declined by 3.6%.

Net sales internationally decreased 14.2% to $141.8 million for fiscal 1998 from $165.3 million for Fiscal 1997. The Europe, Middle East and Africa ("E.M.E.A.") region was down 3.7% mainly in the basketball category, partially offset by a $5.7 million increase in Converse's new action sports category. The Pacific region decreased 15.6% with significant declines in the basketball and children's categories, partially offset by an 8.3% increase in the athletic originals category. The Latin America and Canada regions were down 56.8% and 38.0%, respectively across all categories.

Gross Profit

Gross profit decreased to $70.7 million in Fiscal 1998 from $120.9 million in Fiscal 1997, a 41.5% decline. The industry downturn and related volume decreases accounted for the majority of the gross profit reduction over the period. As a percentage of net sales, gross profit fell to 22.9% in Fiscal 1998 compared to 26.9 for the prior year period. The decline in gross profit was caused by reduced standard margins in the basketball, cross training and children's categories, partially offset by improvement in the athletic originals category and increased other product costs, partially offset by reduced distribution costs.

The decline in standard margins was caused primarily by the highly promotional and over-inventoried environment that led to reduced demand in Converse's performance categories and resulted in price reductions for basketball, children's and cross training products. Converse's efforts to reduce inventory levels through the clearance of product from past seasons have also contributed to the decline. In the United States, standard margins declined significantly in the basketball, cross training and children's categories. Standard margins also declined greatly in the Second Half of Fiscal 1998. Internationally standard margins were also weaker in the basketball, cross training and children's categories, while athletic originals showed a slight improvement, especially in the Pacific Region.

Reduced demand for athletic originals product in the Second Half of Fiscal 1998 led to measures taken to reduce inventory levels and resulted in increased other product costs of $4.3 million from reduced manufacturing utilization and efficiency at Converse's U.S. factories. This was partially offset by decreased distribution costs in Fiscal 1998 of $2.7 million or 18.0% due to decreased shipments compared to Fiscal 1997. Distribution costs decreased 11.9% in the United States and 28.8% internationally.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 27.2% to $92.7 million in Fiscal 1998 from $127.3 million in Fiscal 1997. The decrease of $34.6 million was the result of aggressive actions taken by Converse in order to address the weak industry conditions in Fiscal 1998. As a percentage of net sales, selling, general and administrative expenses increased to 30.1% for Fiscal 1998 from 28.3% for the prior year.

In the U.S., spending for advertising and marketing was reduced by $10.2 million, or 31.5%, and direct sales expenses decreased by $10.0 million, or 32.9% in Fiscal 1998 compared to the prior year. Research and development costs (comprised of athletic footwear design, development of new technologies and biomechanic and chemical testing) decreased to $7.7 million in Fiscal 1998 from $8.8 million in Fiscal 1997, a 12.5% decrease. Administrative expenses in the U.S. (consisting of executive, finance, legal, human resources and information technology) decreased by $1.7 million or 8.4% in Fiscal 1998 from the prior year. Also contributing to the decline in selling, general and administrative expenses was a gain of $9.3 million resulting from the termination of the post-retirement medical benefit plan and a gain of $1.6 million resulting from pension curtailment due to workforce reductions, partially offset by a $1.8 million severance charge related to workforce reductions in Fiscal 1998.

Selling, general and administrative expenses decreased internationally by $5.6 million or 13.1% for Fiscal 1998. Expenses in the E.M.E.A. region were reduced by $4.1 million or 14.3%, while the Pacific, Canada and Latin America regions also recorded reductions.

Royalty Income

Royalty income decreased 10.6% to $20.2 million in Fiscal 1998 from $22.6 million in Fiscal 1997. Converse utilizes licensees who manufacture or purchase and distribute sports apparel, accessories and selected footwear to provide consumers head-to-toe Converse-branded products globally. Converse has entered into 74 separate licensing agreements permitting licensees to design and market selected products under the Converse brand name in specific markets. As a percentage of net sales, royalty income increased to 6.5% in Fiscal 1998 from 5.0% in the prior year.

International royalty income, which represented 84.8% of Converse's total royalty income, declined 8.8% in Fiscal 1998 primarily as a result of a 40.6% and a 25.3% in the E.M.E.A. and Southeast Asia regions, respectively, compared to Fiscal 1997. The decreases are representative of the slowdown in the athletic footwear business and were exacerbated by the deterioration of the economies in Southeast Asia and the strength of the U. S. dollar worldwide. The decline was partially offset by an 11.9% increase in the Japanese region.

The decrease in the E.M.E.A. region was reflective of sales decreases among some of Converse's key Western Europe, Middle East and Africa licensees. Weaker royalty income was derived from Athanassopoulos (Greece) down 39.5%, Carol Agencies (South Africa) down 48.9%, Delta Trade (Middle East) down 46.9% and United Sports (Israel) down 51.5%. In addition, a $0.4 million reduction can be attributed the expiration of the licensing agreement for the Iberian territory and the subsequent incorporation of this business into Converse's subsidiary in that region. These declines were partially offset by royalty income increases for certain Eastern European licensees. Royalty income for Sopotnik Trade (Slovenia, Croatia, Yugoslavia) increased 40.0%.

The 25.3% decrease in the Southeast Asia region was primarily attributable to royalty income decreases of 26.6%, 26.9%, 24.6% and 48.4% for Taishoe (Taiwan), Filcon (Philippines), Conquest Sports (Australia) and Alantic Sports (Singapore, Malaysia), respectively. These decreases were the result of the deterioration of the relevant economies and the strength of the U. S. dollar as mentioned previously.

The Japanese region increase was primarily attributable to a royalty income increase from Moonstar, Converse's footwear licensee in that region. Licensing income derived from Moonstar increased $1.4 million in Fiscal 1998, to $2.7 million, from $1.3 million in the prior year. The Moonstar increase was the result of Converse's elimination of their operating unit in Japan and increased licensed footwear offerings.

Royalty income for the Latin America territory declined slightly from Fiscal 1997 to Fiscal 1998. The 2.7% decline was attributable to a decline of 28.6% in royalty income from Deportes Jimmy (Panama) offset by a 17.2% increase in royalty income from Conasur (Argentina).

Domestic royalty income declined 19.4% in Fiscal 1998 from that in Fiscal 1997. The decline was primarily the result of weaker royalty income from the certain licensees. Royalty income from Rem Optical (eyewear) and Shalom (children's activewear) declined 17.0% and 44.7%, respectively. In addition, the expiration of the women's apparel licensee, Active Apparel, had a $0.3 million negative effect on royalty income for the region.

Restructuring Expenses

In the fourth quarter of Fiscal 1997, Converse established pretax restructuring reserves of $2.1 million related to a workforce reduction and the elimination of certain unprofitable retail stores. This restructuring charge was partially offset by the reversal of previously written-off expenses relating to the closing of the Mission, Texas manufacturing facility in the first quarter of Fiscal 1997.

At January 2, 1999, there were no remaining restructuring reserves.

Earnings (Loss) from Operations

Converse recorded a loss from operations in Fiscal 1998 of $1.8 million, compared to earnings from operations of $14.7 million in Fiscal 1997. This change was primarily due to the factors discussed above.

Credit on Investment in Unconsolidated Subsidiary

In Fiscal 1997, Converse recorded a pretax credit totaling $13.2 million related to the settlement of certain claims by Converse related to Converse's 1995 acquisition of Apex One, Inc. ("Apex"). This amount was partially offset by additional Apex-related legal and settlement costs incurred in the fourth quarter of Fiscal 1997, finalizing all remaining outstanding litigation relating to Converse's investment in Apex. The net activity for Fiscal 1997 was a net credit on investment in unconsolidated subsidiary of $12.5 million. At January 2, 1999, there were no remaining claims against Converse related to its 1995 acquisition of Apex.

Interest Expense

Interest expense for Fiscal 1998 increased 13.6% to $17.5 million from $15.4 million in Fiscal 1997. The increase reflects higher borrowing levels in Fiscal 1998 compared to Fiscal 1997 and the reversal of $1.4 million of interest payments previously paid into escrow on the subordinated notes issued to former owners of Apex and subsequently surrendered to Converse upon settlement of Converse's claims against them in 1997.

Other Expense

Other expense for Fiscal 1998 of $0.6 million was comprised primarily of foreign exchange losses offset by the $1.0 million gain on the sale of Converse's Reynosa, Mexico manufacturing facility. The Fiscal 1997 expense of $3.0 million was primarily related to foreign exchange losses attributable to the appreciation of the U.S. dollar. Since the third quarter 1997, Converse has entered into foreign exchange contracts and currency options as part of a strategy to reduce its exposure to foreign currency fluctuations.

Income Tax Expense

Income tax expense, excluding the effect of extraordinary items, for Fiscal 1998 was $3.6 million, compared to $13.2 million for Fiscal 1997. As of January 2, 1999, Converse's gross deferred tax assets were $54.1 million, which was the result of net operating loss carryforwards and other future tax deductible items totaling $133.2 million. Although the period to use these deferred tax assets is 11 to 20 years for tax purposes, the accounting guidance requires that a shorter time frame be used to assess the probability of their realization. As a result of the uncertainty caused by the industry downturn which began in the last half of Fiscal 1997 and the related oversupply of inventory in the marketplace in Fiscal 1998, Converse incurred a charge to income tax expense of $9.4 million to increase its deferred tax valuation allowance to a total of $30.8 million.

Extraordinary (Gain) Loss

During Fiscal 1998, Converse reported an extraordinary gain of $0.7 million, net of tax. The extraordinary gain related to the cancellation of outstanding subordinated notes Converse exchanged for newly issued secured notes, net of financing fees that were written off in connection with the debt transactions. During Fiscal 1997, Converse entered into a new $150.0 million secured credit agreement replacing its former credit agreement. In connection with the repayment of the former credit agreement, Converse wrote-off deferred financing fees of $1.3 million which resulted in an extraordinary loss net of tax of $0.7 million.

Net Loss

Due to the factors described above, Converse recorded a net loss of $22.8 million in Fiscal 1998 compared to a $5.0 million net loss in Fiscal 1997.

The following table sets forth EBITDA with proforma adjustments for Fiscal 1998 and Fiscal 1997:

	Fiscal Year Ended	
	January 2, 1999	January 3, 1998
Net earnings (loss) from continuing operations	$ (23,519)	$ (4,305)
Interest expense	17,525	15,374
Tax provision (benefit)	3,572	13,154
Depreciation	3,939	3,589
Amortization	(1,610)	(1,529)
EBITDA	(93)	26,283
Gross proforma adjustments:		
Restructuring expense (credit)	---	1,537
Credit on investment in unconsolidated subsidiary	---	(12,537)
Loss on sale of foreign subsidiaries	378	---
Proforma EBITDA	$ 285	$ 15,283

1998 PRO FORMA ADJUSTMENTS

Deferred Tax Valuation

As of January 2, 1999, Converse had net deferred tax assets of approximately $54.0 million which represent net operating losses and future deductible amounts of approximately $134.0 million. Market conditions continued to be weak in 1998, resulting in additional operating losses and a long forecasted time period for recovery.

Management, therefore, increased the tax valuation allowance by $9.4 million to approximately 60% of the deferred tax balance during 1998.

Loss on Sale of Foreign Subsidiaries

During the third quarter of 1998, Converse closed it's subsidiary in Japan resulting in a charge of $0.3 million to write-off the balance of cumulative foreign currency translation adjustments. In the fourth quarter of 1998, Converse recorded a charge of $0.1 million related to the transfer of its Iberia operations from its subsidiary to a new manufacturing, distribution and licensee agreement.

Extraordinary Item

Converse recorded an extraordinary gain of $1.1 million related to the cancellation of outstanding subordinated notes in exchange for newly issued secured notes, net of financing fees that were written off in connection with the issuance of senior secured notes and the resulting reduction of Converse's commitment under its credit facility. This was presented as an extraordinary item on the statement of operations and is shown net of tax of $0.4 million.

1997 PRO FORMA ADJUSTMENTS

Settlement of Apex Litigation and Confirmation of Bankruptcy Plan

Converse recorded a net pretax gain of $13.1 million during the first quarter of 1997 in connection with the settlement of Apex litigation and confirmation of the Apex bankruptcy plan. During the second quarter of 1997, Converse received a cash payment of $753,000 in settlement of its claim with Norwood, the one remaining former owner of Apex. Norwood continues to hold subordinated notes issued by Converse in the amount of $774,000.

Litigation and other costs of $0.5 million were recorded in the fourth quarter of 1997 upon settlement of outstanding litigation with this note holder and final settlement of a vendor suit against Converse. At January 3, 1998, there are no remaining claims by, or against Converse relating to its 1995 acquisition of Apex.

Deferred Tax Valuation

As of January 3, 1998, Converse had net deferred tax assets of approximately $44.0 million which represent net operating losses and future deductible amounts aggregating approximately $115.0 million.

During the last half of 1997, market conditions began deteriorating resulting in operating losses during the third and fourth quarters, further restructuring actions and a significant downward revision in Converse's operating forecasts.

Based on these changes in circumstances, management increased the valuation allowance by $9.3 million, to approximately 50% of the deferred tax balance, during the fourth quarter.

Restructuring Reserve

During the first quarter of 1997, Converse re-opened the manufacturing facility located in Mission, Texas for cutting and limited production due to an unexpected increase in demand for athletic originals products. Accordingly, the remaining lease termination restructuring reserve of $0.6 million was reversed into income.

Converse recorded a restructuring charge of $2.1 million in the fourth quarter of 1997, in order to bring Converse's expenses more in line with projected revenues as a result of the uncertainty caused by the recent industry downturn and the related oversupply of inventory in the market place. This restructuring charge related to a workforce reduction and elimination of certain unprofitable retail stores.

Extraordinary Item

In connection with the refinancing and repayment of Converse's 1994 credit facility, Converse wrote-off deferred financing fees of $1.3 million in the second quarter of Fiscal 1997. This write-off was presented as an extraordinary item on the statement of operations and is shown net of $0.6 million of tax.

Comparison of Fiscal 1997 and Fiscal 1996

The following table set forth certain items related to operations and such items as a percentage of net sales for Fiscal 1997 and Fiscal 1996:

	Fiscal Year Ended			
	January 3, 1998	%	December 28, 1996	%
	(Dollars in Thousands, except per share amounts)			
Net sales	$450,199	100.0	$349,335	100.0
Gross profit	120,941	26.9	86,237	24.7
Selling, general and administrative expenses	127,261	28.3	114,888	32.9
Royalty income	22,569	5.0	27,638	7.9
Restructuring expenses (credit)	1,537	0.3	(1,177)	(0.3)
Earnings from operations	14,712	3.3	164	0.0
Loss (credit) on investment in unconsolidated subsidiary	(12,537)	(2.8)	(1,362)	(0.4)
Interest expense	15,374	3.4	17,776	5.1
Income tax expense (benefit).	13,154	2.9	(4,134)	(1.2)
Loss from continuing operations	(4,305)	(1.0)	(18,435)	(5.3)
Extraordinary loss	744	(0.1)	----	----
Net loss	$ (5,049)	(1.1)	$(18,435)	(5.3)
EBITDA	$ 26,283		$ (3,232)	
Proforma EBITDA	$ 15,283		$ (2,155)	

Net Sales

Net sales for Fiscal 1997 increased to $450.2 million from $349.3 million in Fiscal 1996, a 28.9% improvement. The $100.9 million sales growth in Fiscal 1997 is attributable to increases of 44.3%, 40.1% and 8.5% in the athletic originals, basketball and children's categories, respectively, compared to Fiscal 1996. These gains were partially offset by a 1.1% decline in the cross training category compared to the prior year.

Net sales in the United States for Fiscal 1997 increased 46.8%. The increase was primarily due to an increase of 82.0% in the basketball category as well as increases of 51.7%, 32.6% and 26.4% in the cross training, athletic originals and children's categories, respectively, compared to Fiscal 1996. Net sales internationally increased 6.5% in Fiscal 1997 compared to the prior year. The increase of 51.4% in the athletic originals category was offset by declines of 47.1%, 30.2% and 26.7% in the cross training, basketball and children's categories, respectively. Net sales in the Pacific region (Japan) improved 62.4% in Fiscal 1997 as a result of strong demand for Converse's athletic originals products while net sales in the Latin/South America region increased 3.2%. Net sales in the Europe, Middle East and Africa region, and Canada recorded declines of 18.2% and 10.6%, respectively, in Fiscal 1997. The strong U.S. dollar continued to have an adverse affect on Converse's results. On a constant dollar basis, Fiscal 1997 international net sales would have increased 11.1% compared to Fiscal 1996.

Gross Profit

Gross profit increased to $120.9 million in Fiscal 1997 from $86.2 million in Fiscal 1996, a 40.3% improvement. As a percentage of net sales, gross profit increased to 26.9% in Fiscal 1997 compared to 24.7% for the prior year period. The increase in gross profit was due to improved standard margins in all product categories and reduced other product costs, partially offset by increased distribution costs.

The improvement in standard margins is primarily attributable to strong sales in the first half of Fiscal 1997 in all categories as well as increasing consumer demand for Converse's athletic originals products in the second half of the year. These standard margin gains were partially offset by weaker margins in the second

half of Fiscal 1997 in the basketball, training and children's categories resulting from an oversupply of inventory in the market due to an industry-wide slow down in athletic footwear sales. In the United States, improvements in standard margins for Fiscal 1997 in the basketball and cross training categories were partially offset by weaker margins in the athletic originals and children's categories compared to Fiscal 1996. Internationally, standard margins were weaker in all categories.

The increased demand for Converse's athletic originals products in the second half of Fiscal 1997 resulted in improved other product costs of $8.2 million due to increased manufacturing utilization and efficiency at Converse's U.S. factories. This was partially offset by an increase in distribution costs in Fiscal 1997 of $2.6 million or 22.1% due to higher shipments compared to Fiscal 1996. Distribution costs increased 24.6% in the United States and 17.1% internationally.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 10.8% to $127.3 in Fiscal 1997 from $114.9 million in Fiscal 1996. The increase of $12.4 million resulted from increased spending in all of Converse's functions in order to support the sales growth in Fiscal 1997. As a percentage of net sales, selling, general and administrative expenses decreased to 28.3% for fiscal 1997 compared to 32.9% for Fiscal 1996.

Increases in advertising and marketing and direct sales costs in the U.S. were primarily attributable to the increase in net sales in Fiscal 1997. Advertising and marketing expenses increased $3.7 million, or 13.0%, and direct sales expenses increased $6.6 million, or 27.8% in Fiscal 1997 compared to the prior year. Research and development costs (comprised of athletic footwear design, development of new technologies and biomechanic and chemical testing) increased to $8.8 million in Fiscal 1997 from $6.5 million in Fiscal 1996, an increase of 35.4%. Administrative expenses in the U.S. (consisting of executive, finance, legal, human resources and information technology costs) decreased by $0.2 million in Fiscal 1997 from the prior year period.

Selling, general and administrative expenses increased internationally by $2.9 million or 7.4% for fiscal 1997. Expenses in the Pacific region increased by $2.0 million or 31.3% in Fiscal 1997, while the EMEA, Canada and Latin America regions also recorded slight increases.

Royalty Income

Royalty income decreased 18.1% to $22.6 million in Fiscal 1997 from $27.6 million in Fiscal 1996. Converse utilizes licensees who manufacture or purchase and distribute sports apparel, accessories and selected footwear to provide consumers head-to-toe Converse-branded products globally. Converse has entered into 69 separate licensing agreements permitting the licensees to design and market selected products under the Converse brand name in specific markets. As a percentage of net sales, royalty income declined to 5.0% in Fiscal 1997 compared to 7.9% in the prior year.

International royalty income, which represented 83.1% of Converse's total royalty income, declined 24.9% in Fiscal 1997 primarily as a result of a 48.3% reduction in the Japanese region compared to Fiscal 1996. The Japanese region decline is primarily attributable to streamlining the distribution of Converse's licensed apparel products. In 1996, one of Converse's licensees in Japan (Itochu) increased its sales volume, resulting in increased royalties, from $4.1 million in 1995 to $12.1 million in 1996. This dramatic, 200% increase was accomplished by distributing Converse products to lower-quality retailers (such as discount stores), which was in violation of Converse's licensing agreement with Itochu. Converse monitors its contracts with licensees to protect the quality of the Converse brand and how it is positioned. Accordingly, Itochu paid Converse a penalty of $1.8 million to cover punitive damages, which is included in the royalty income from 1996.

The Japanese region decreased 48.3% to $7.8 million in Fiscal 1997 from $15.1 million in Fiscal 1996. The decline was primarily attributable to the streamlining the distribution of Converse's licensed apparel products, previously discussed. The key licensees within the Japanese region continued to increase – Moonstar (footwear) up 66%, Zett (athletic apparel) up 13%, Gunze (casualwear) up 3%, Fukusuke (socks)

up 34% and Takara (children's casualwear) up 2%. These increases were more than offset by Itochu (apparel) reduction of 68% due to eliminating distributing to lower-quality retailers. Excluding Itochu royalty income activity from both Fiscal 1997 and Fiscal 1996, Japanese region would have increased by 29.5%.

The Southeast Asia region decreased 11.1% to $5.6 million in Fiscal 1997 from $6.3 million in Fiscal 1996. The Southeast Asia region decline is primarily attributable to the downward trend in their economies and to the strengthening of the U.S. dollar. Weaker royalty income mainly from Conquest Sports (Australia/New Zealand) down 22% and Taishoe (Taiwan) down 18% was partially offset by improved royalty income from Filcon (Philippines) 31%, Tactic (Thailand) 16% and Kumhwa (South Korea) 198%. Overall, the Southeast Asia region is Converse's second largest region for royalty income.

The Europe, Middle East and Africa (EMEA) region increased 34.8% to $3.1 million in Fiscal 1997 from $2.3 million in Fiscal 1996. The improvement in royalty income from EMEA region was primarily from Carol Agencies (South Africa) up 35%, Athanassapoulos (Greece) 158%, Delta Trade (Middle East) 74%, and Sopotnik (Slovenia, Croatia).

The America's region increased 144.4% to $2.2 million in Fiscal 1997 from $0.9 million in Fiscal 1996. The increase in the America's region was driven by Consaur (Argentina) up 35%, Grupo de Mexico (Mexico) 201%, Commercial E (Chile) increase of $0.3 million and Deportes Jimmy (Panama) up 470%. The United States region increased 41% to $3.8 million in Fiscal 1997 from $2.7 million in Fiscal 1996 due to increasing apparel and accessories sales.

Restructuring Expenses (Credit)

Converse established pretax restructuring reserves of $2.1 million related to a workforce reduction and the elimination of certain unprofitable retail stores in the fourth quarter of Fiscal 1997. The restructuring reserves represent fixed amounts to be paid out during 1998. This restructuring charge was partially offset by the reversal of previously written-off expenses relating to the re-opening of the Mission, Texas manufacturing facility in the first quarter of Fiscal 1997.

Earnings from Operations

Converse recorded earnings from operations in Fiscal 1997 of $14.7 million, compared to $0.2 million in Fiscal 1996. This change was primarily due to the factors discussed above.

Loss (Credit) on Investment in Unconsolidated Subsidiary

In the first quarter of Fiscal 1997, Converse recorded a pretax gain totaling $13.1 million relating to the settlement of certain Apex-related obligations. This amount was partially offset by additional Apex-related legal and settlement costs incurred in the fourth quarter of Fiscal 1997, finalizing all remaining outstanding litigation relating to Converse's investment in Apex. The net activity for Fiscal 1997 was a net credit on investment in unconsolidated subsidiary of $12.5 million. At January 3, 1998, there were no remaining claims against Converse relating to its 1995 acquisition of Apex.

Interest Expense

Interest expense for Fiscal 1997 decreased 13.5% to $15.4 million from $17.8 million in Fiscal 1996. The decrease is primarily attributable to the reversal of $1.4 million of interest payments paid into escrow relating to the subordinated notes issued to the former owners of Apex, the write-off of unamortized bank fees and the issuance of the convertible notes replacing other higher-interest indebtedness. These decreases were partially offset by an increase in interest payments due to higher borrowing levels in Fiscal 1997 compared to Fiscal 1996.

Income Tax Expense (Benefit)

Income tax expense for Fiscal 1997 was $13.2 million, compared to an income tax benefit of $4.1 million for Fiscal 1996. As of January 3, 1998, Converse's gross deferred tax assets were $44.2 million, which is the result of net operating loss carryforwards and other future tax deductible items totaling $117.2 million. Although the period to use these deferred tax assets is 11 to 20 years for tax purposes, the accounting guidance requires that a shorter time frame be used to assess the probability of their realization. As a result of the uncertainty caused by the industry downturn and the related oversupply of inventory in the marketplace during the fourth quarter of Fiscal 1997, Converse increased its deferred tax valuation allowance by $9.3 million to a total of $20.9 million.

Extraordinary Loss

During Fiscal 1997, Converse entered into a new $150.0 million secured credit agreement replacing its former credit agreement. In connection with the repayment of the former credit agreement, Converse wrote-off deferred financing fees of $1.3 million which resulted in an extraordinary loss net of tax of $0.7 million.

Net Loss

Due to the factors described above, Converse recorded a net loss of $5.0 million in Fiscal 1997 compared to an $18.4 million net loss in Fiscal 1996.

The following table sets forth EBITDA with proforma adjustments for Fiscal 1997 and Fiscal 1996:

	Fiscal Year Ended	
	January 3, 1998	December 28, 1996
Net earnings (loss) from continuing operations	$ (4,305)	$ (18,435)
Interest expense	15,374	17,776
Tax provision (benefit)	13,154	(4,134)
Depreciation	3,589	3,100
Amortization	(1,529)	(1,539)
EBITDA	26,283	(3,232)
Gross proforma adjustments:		
Restructuring expense (credit)	1,537	(1,177)
Credit on investment in unconsolidated subsidiary	(12,537)	(1,362)
Tax sharing agreement	---	3,616
Proforma EBITDA	$ 15,283	$ (2,155)

1997 PRO FORMA ADJUSTMENTS

Settlement of Apex Litigation and Confirmation of Bankruptcy Plan

Converse recorded a net pretax gain of $13.1 million during the first quarter of 1997 in connection with the settlement of Apex litigation and confirmation of the Apex bankruptcy plan. During the second quarter of 1997, Converse received a cash payment of $753,000 in settlement of its claim with Norwood, the one remaining former owner of Apex. Norwood continues to hold subordinated notes issued by Converse in the amount of $774,000

Litigation and other costs of $0.5 million were recorded in the fourth quarter of 1997 upon settlement of outstanding litigation with this note holder and final settlement of a vendor suit against Converse. At

January 3, 1998, there are no remaining claims by, or against Converse relating to its 1995 acquisition of Apex.

Deferred Tax Valuation

As of January 3, 1998, Converse had net deferred tax assets of approximately $44.0 million which represent net operating losses and future deductible amounts aggregating approximately $115.0 million.

During the last half of 1997, market conditions began deteriorating resulting in operating losses during the third and fourth quarters, further restructuring actions and a significant downward revision in Converse's operating forecasts.

Based on these changes in circumstances, management increased the valuation allowance by $9.3 million, to approximately 50% of the deferred tax balance, during the fourth quarter.

Restructuring Reserve

During the first quarter of 1997, Converse re-opened the manufacturing facility located in Mission, Texas for cutting and limited production due to an unexpected increase in demand for athletic originals products. Accordingly, the remaining lease termination restructuring reserve of $0.6 million was reversed into income.

Converse recorded a restructuring charge of $2.1 million in the fourth quarter of 1997, in order to bring Converse's expenses more in line with projected revenues as a result of the uncertainty caused by the recent industry downturn and the related oversupply of inventory in the market place. This restructuring charge related to a workforce reduction and elimination of certain unprofitable retail stores.

Extraordinary Item

In connection with the refinancing and repayment of Converse's 1994 credit facility, Converse wrote-off deferred financing fees of $1.3 million in the second quarter of Fiscal 1997. This write-off was presented as an extraordinary item on the statement of operations and is shown net of $0.6 million of tax.

1996 PRO FORMA ADJUSTMENTS

Investment in Apex One, Inc.

Consistent with the prior year, Converse's investment in Apex was recorded as an unconsolidated equity investment.

During the second quarter of 1996, Converse recorded an additional $0.5 million loss on its unconsolidated equity investment in Apex. This additional loss was comprised primarily of credits issued to customers to settle claims of discrepancies on shipments of Apex inventory. In addition, Converse reverse $1.9 million of previously accrued guarantees as a result of settlements during 1996 with certain sellers of Apex.

Deferred Tax Valuation

As of December 28, 1996, Converse had gross deferred tax assets of approximately $47.8 million which represented net operating losses and future deductible differences aggregating approximately $118.5 million.

In determining the appropriate valuation allowance to provide against deferred tax assets, management evaluated many factors, both positive and negative. As a result of this analysis, in 1996 an additional valuation allowance of $5.0 million was booked, which established the current valuation allowance of $11.5 million against Converse's deferred tax assets.

Tax Sharing Agreement

In conjunction with the 1995 Tax Sharing Agreement negotiated with Furniture Brands, Converse was required to carryback the first $10 million of tax operating losses for the year ended December 28, 1996. Furniture Brands received the full tax refund associated with these losses. As a result, Converse recorded a $3.6 million expense related to Interco's share of these losses.

Restructuring

During the second quarter of 1996, Converse sold the warehouse facility in Chester, South Carolina. Proceeds from this sale exceeded Converse's estimates, resulting in a reversal of $2.2 million of restructuring reserves. During the third quarter in 1996, certain contracts were terminated on terms more advantageous than originally anticipated resulting in a reversal of $1.0 million of restructuring accruals. In addition, while implementing its fourth quarter 1995 restructuring plans, Converse incurred additional severance charges of $1.0 million and $0.3 million in the third and fourth quarters of 1996, respectively and additional asset write-offs of $0.7 million during the fourth quarter of 1996.

Appendix D: Company's Strategic Plan

Corporate Summary

Converse Inc. ("Converse" or the "Company") is a leading global designer, manufacturer and marketer of high-quality athletic footwear for men, women and children and a global licensor of sports apparel, accessories and selected footwear. Since introducing the world's first basketball shoe in 1917, Converse has maintained its reputation as the American performance brand with an authentic sports heritage offering quality, style and value. Converse has consistently been among the top ten suppliers of athletic footwear in the U.S. Converse's brands have achieved a high level of recognition worldwide and include Converse®, Chuck Taylor®, Jack Purcell® and All Star®. Converse's brand recognition and long history has enabled the Chuck Taylor® All Star® shoe to become the world's all-time, best-selling athletic shoe with over 560 million pairs sold since its introduction. Converse's products and licensed items are distributed in over 90 countries and generated worldwide wholesale revenues of $680 million in 1998, with approximately 70% coming from outside the U.S. Converse is listed and traded on the NYSE under the trading symbol "CVE."

Proforma for sale of Japanese non-footwear trademarks in November 1999, global wholesale sales were $572 million adjusted, with approximately 63% coming from outside the United States.

Business Overview

Products

In 1998, Converse's net sales were $308 million with approximately 54% generated from the U.S. market. Europe, the Middle East and Africa ("EMEA"), Japan and Latin America contributed 24%, 19% and 3% to net sales, respectively. Converse divides its operations into four major product categories: Athletic Originals, Performance, Action Sports, and Children as follows:

Product Categories	Athletic Originals	Performance	Children	Action Sports	Other
Products	From classic Chuck Taylor All Star to contemporary athletic shoes in a wide variety of colors	Basketball and training shoes Also includes cheerleading, officials and running shoes	Child-sized versions of in-line products as well as footwear designed specifically for children	Skate, eco-training shoes and other alternative sports	Sports apparel and accessories
Product Price Range	$20-$65	$45-$100	$18-$40	$60-$90	NM
1998 Net Sales (in MM)	$150 8	$92 7	$40 0	$7 0	$17 9
1999E Net Sales (in MM)	$115 0	$78 0	$27 0	$10 0	$10 0

Source. Company's management

Licenses

Converse has entered into a number of license agreements for the manufacture and distribution of Converse® branded products in all major global markets which has allowed Converse to cost-effectively expand its global reach. In 1998, Converse generated royalty income of $20.2 million, of which 49% was attributable to footwear and the remaining 51% to apparel and accessories. Proforma for 1998 the sale of Japanese non-footwear trademarks, royalty income adjusted would be $14.3 million, of which 68% was attributed to footwear and the remaining 32% to apparel and accessories. The royalty income stream has minimal direct cost and working capital associated with it and therefore, is very profitable. At the end of 1998, Converse had 74 license agreements which enabled Converse's licensees to market select products under the Converse® brand name within a specific market. Converse is currently in the process of evaluating operations in a number of its international subsidiaries and evaluating the economics of converting unprofitable subsidiaries into licensee/distributor agreements. Such conversions are expected to contribute positively to royalty income going forward and reduced working capital needs.

Japan has historically been Converse's strongest licensing country, accounting for 43% of total royalty income. Southeast Asia, the U.S., Latin America, EMEA and Canada each contributed 21%, 15%, 11%, 9% and 1% to total royalty income, respectively. However, with the recent sale of the Japanese non-footwear trademarks, future royalty income generated in that region will be solely generated by Japanese

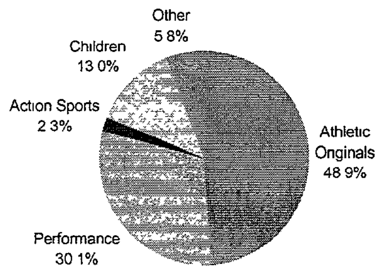
footwear licensees. Although licensing income in the region will be reduced, the concentration risk in that market will also be reduced.

Business Strategy

Product Strategy

Converse, founded in 1908, began establishing its authentic footwear heritage with the introduction of its original canvas Chuck Taylor® basketball shoe in 1917. Throughout its 91-year history, Converse has achieved a high level of brand name recognition due to its reputation for high performance product, quality, value and style. Through its well-known Converse® All Star® brand, Converse has consistently maintained its position as the American performance brand with authentic sports heritage. Converse concentrates its marketing, product development and sales effort on four categories: Athletic Originals, Performance, Action Sports and Children's.

1998 Net Sales by Product



Source: Company's management.

Athletic Originals: Converse's athletic originals footwear line is centered on the Chuck Taylor® All Star® athletic shoe. Since its introduction in 1917 as the world's first basketball shoe, Converse has sold over 560 million pairs, and management believes it to be the all-time best selling athletic shoe ever. Converse's Athletic Originals footwear encompasses classic and casual athletic shoes.

Performance: Converse's Performance business consists mainly of basketball models as well as training, cheerleading, officials and running. Converse basketball footwear offerings are high performance products generally featuring one or more proprietary performance technologies developed by Converse.

Action Sports: In 1998, Converse made the strategic decision to enter the Action Sports category, a rapidly growing industry segment that focuses on alternative sports such as skateboarding and ECO-training.

Children's: The Children's category offers infant and child-sized versions of Converse's adult-sized Athletic Originals, Performance and Action Sports product lines. Converse also offers products designed specifically for children.

Sourcing Strategy

In 1998, approximately 46% of Converse® footwear was sourced from a variety of contract manufacturers in the Far East in accordance with Converse's design specifications and quality standards. Converse uses experienced athletic footwear manufacturers and avoids over-reliance on any one supplier. While sourcing is managed by Converse's corporate headquarters in the United States, Converse also utilizes a sourcing agent in Taiwan. In 1998, Converse purchased approximately 7.3 million pairs from 11 manufacturers located in China, Taiwan, Macau, Vietnam and the Philippines.

Manufacturing Strategy

In addition to sourcing, Converse owns and operates a 350,000 square foot manufacturing facility in Lumberton, North Carolina, and leases manufacturing facilities in Mission, Texas (35,000 square foot) and Reynosa, Mexico (100,000 square foot). The majority of sales generated from Converse's Athletic Originals category are from models manufactured at the Lumberton facility with supplemental production in Mission. The leather cutting and stitching is performed in Reynosa in order to capitalize on lower labor costs. It provides Converse the ability to supply classic models "Made in the U.S.A.", which is important for certain overseas markets. Converse is currently evaluating the relocation of the Lumberton operation to Mission in order to achieve additional cost savings.

Distribution Strategy

Converse's products are distributed in over 90 countries to approximately 6,000 retail customers, 2,500 of which are located in the U.S. These include specialty athletic sporting goods stores, department and traditional shoe stores, as well as to 27 Company-operated retail outlet stores. Converse's top ten accounts include:

Net Sales before Freight discounts & allowances

Top 10 Customers in 1998	Amount ($ in MM)	As a % of Total Shipments
Moonstar (Japan)	$60.5	19.3%
Sears Roebuck	9.7	3.1
Footlocker/Venator	8.1	2.6
Just For Feet	8.0	2.6
Brown Group/Famous Footwear	6 9	2.2
Converse S. Africa	6.4	2.0
Kohl's Department Store	5.7	1.8
Montgomery Ward	3.8	1.2
Shoe Carnival	3.7	1.2
JC Penney	3.3	1.1

Source: Company's data.

Net Sales by Geographic Region

	1996 Actual	% of Sales	1997 Actual	% of Sales	1998 Actual	% of Sales
Net Sales						
United States	$194.0	55.5%	$284.9	63.3%	$166.6	54.0%
Europe, Middle East, Africa	92.2	26 4	75.4	16.8	72.6	23.5
Japan	43.7	12 5	71.0	15.8	59.7	19.4
Americas (excl. U.S)	19.4	5.6	18.9	4.2	9.5	3.1
Total	$349.3	100.0%	$450.2	100.0%	$308.4	100.0%

Source: Company's data

Licensing Strategy

Converse's licensing strategy has allowed it to capitalize on it strong brand name without incurring manufacturing and distribution costs, working capital investment and their associated risks. This licensing strategy allows Converse licensees to offer a full range of Converse branded products including apparel and accessories. In 1998, royalty income from 74 separate license agreements contributed $20.2 million. Converse's license agreements currently cover apparel, footwear, hats, socks, school supplies, eyewear, watches, and backpacks around the world. Licensees market selected products under the Converse® brand name in specific markets subject to design, marketing and quality approval from Converse. The terms of the contracts between Converse and its licensees typically range from 3 to 5 years with renewal options based upon the licensee's prior performance. Royalty rates are around 7% of net wholesale sales.

Product Segmentation

Athletic Originals

The Athletic Originals category is divided into 3 segments: classics, men's, and women's. The lead product of the classic segment of Athletic Originals is the Converse® Chuck Taylor® All Star®. The Chuck Taylor styling has remained popular through the present day and currently classic American "Chucks" are seen as hip, casual shoes and seen all over the world. A second key product is the Jack Purcell® that Converse began to manufacture and market in 1972. Although the styling of the classic Athletic Original shoes has remained unchanged over time, Converse regularly introduces new colors and fabrics to expand appeal and meet changing fashion trends. In addition to classics, the men's and women's Athletic Original products have been inspired by Converse's rich athletic heritage. These casual athletic shoes have retail prices between $30 and $60.

($ in MM)	1996	1997	1998	1999E
Net Sales	$107.5	$155.2	$150.8	$119.0
Standard Profit	$36.1	$47.6	$51.9	$39.3
Standard Margin	33.6%	30.7%	34.4%	33.0%
Sales of Chuck Taylor®	$51.1	$78.4	$87.9	$57.3

Source. Company's data.

Performance

Converse's performance footwear consists of basketball, training, cheerleader, officials and running. The largest segment of Converse's performance footwear is basketball, which represents 85% of the Performance category sales. Performance shoes are targeted towards serious athletes and typically feature innovative design, constructions, and technologies developed by Converse. To strengthen its Performance business in November 1999, Converse will introduce a $100 basketball shoe that contains helium technology. Subsequently, Converse plans to introduce a complete line of helium products in 2000 in the product categories of training, running, action sports and other basketball shoes.

Performance shoes are priced from $45.00 to $100.00 while training shoes are priced from $50.00 to $75.00. Products are sold through an extensive network of athletic specialty, sporting goods, department and shoe stores.

($ in MM)	1996	1997	1998	1999E
Net Sales	$144.2	$190.9	$92.7	$75.0
Standard Profit	$41.8	$58.8	$19.8	$19.5
Standard Margin	29.0%	30.8%	21.4%	26.0%

Source: Company's data

Action Sports

Converse entered the Action Sports category in 1998, with the introduction of skateboarding and eco-training footwear. This category targets the fast growing alternative sports consumers. The ECO-training footwear is designed for rugged outdoor use such as trail running, climbing, and hiking. Action Sports products offer both urban, flashier, color-intensive stylings for the younger, more fashion-conscious consumer as well as technical innovations for the serious athlete. Significant growth opportunities exist for this category in mountain biking, hiking, rock climbing and water sports.

Converse has deliberately sought to keep the distribution of its Action Sports products more limited to maintain their appeal and as a result, offers the product through independent skate shops and select retail customers. Most of the Action Sports line is priced from $60.00 to $85.00.

($ in MM)	1996	1997	1998	1999E
Net Sales	---	---	$7.0	$8.9
Standard Profit	---	---	$2.5	$3.2
Standard Margin	---	---	35.7%	35.5%

Source: Company's data

Children's

The Children's category offers infant- and child-sized versions of Converse's adult-sized Athletic Originals, Performance and Action Sports product lines. Converse also offers products designed specifically for children. In 2000, Converse plans to focus its children's footwear on the most popular adult products and on a value priced children's specific line.

Children's products are sold at suggested retail prices from $18.00 to $40.00 primarily through athletic specialty, children's bootery, sporting goods and department stores. In 2000, Converse plans to focus distribution on mainstream retailers.

($ in MM)	1996	1997	1998	1999E
Net Sales	$75.3	$81.7	$40.0	$27.0
Standard Profit	$24.1	$24.1	$8.9	$6.9
Standard Margin	32.0%	29.5%	22.3%	25.5%

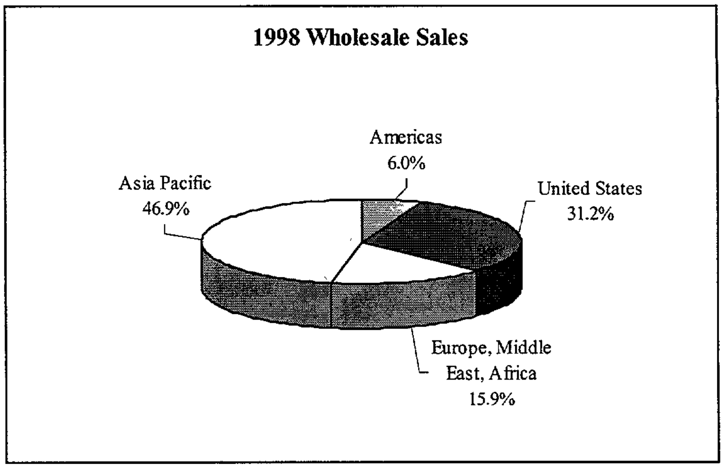
Source: Company's data

Geographic Diversification

Converse has achieved a high level of geographic diversification due to the global strength of its brands driven by both Company-owned and distributor/licensed operations. Converse currently markets its products in approximately 90 countries outside of the U.S. through subsidiaries, independent distributors and licensees. In 1998, Converse's reported net sales were $308.4 million. However, this figure understates the total worldwide presence of Converse-branded products since a large portion is sold through licensees, and Converse recognizes only the percentage of these sales which it records as royalty income. Global wholesale sales of Converse-branded products, which include direct sales by Converse to retailers, sales by Converse distributors and sales of licensed products by Converse licensees, were approximately $680 million ($572 million, pro forma for the sale of Japan non-footwear marks) in 1998. Approximately 69% (63%, pro forma), or $469 million ($360 million, pro forma), of wholesale sales generated by the Converse brands were made outside the United States. Management believes that it is well positioned to continue to take advantage of growth opportunities on a global basis and that its geographic diversification makes it less susceptible to economic downturns in any one region of the world.

The figure below indicates the breakdown of worldwide wholesale sales by geographic region.

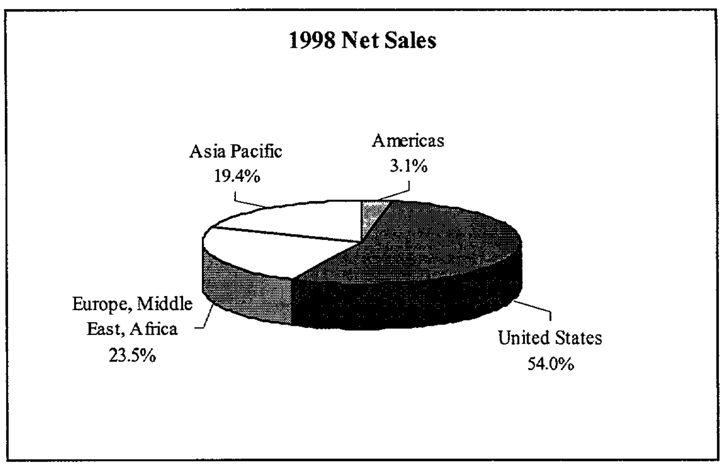
1998 Worldwide Wholesale Sales



Company net sales in 1998 were $308.4 million, with 54% or $166.6 million generated from the U.S. market.

The figure below indicates the breakdown of net sales by geographic region.

1998 Net Sales by Region



Converse operates with its own operations in U.S. and certain countries in Western Europe and through independent licensees/distributors in all other countries. In the United Kingdom, Germany, Benelux, France and Scandinavia, Converse continues to manage subsidiary operations. These wholly-owned operating units are responsible for the sales, marketing and distribution of Converse branded footwear, apparel and accessories to sporting goods, department and specialty stores within these territories.

Summary of Strategic Initiatives

Over the past two and a half years, Converse's exposure to basketball has contributed to a decline in Company sales and earnings. Industry sales of basketball shoes throughout the world have declined significantly over the past two years due to the 12-24 year old consumer moving to other types of athletic

shoes (running) and non-athletic shoes (brown). In response to this industry trend, Converse will diversify its product offerings making itself less dependent on basketball, capitalize on its rich heritage by introducing new retro inspired products and introduce a new technology to increase share in performance category. In addition, Converse has taken strong measures to streamline its operations by lowering Converse's overhead structure and reducing it's working capital, and has converted some of its unprofitable international subsidiaries into licensee/distributor agreements. Management believes that at present, industry trends have stabilized and Converse is well positioned to undertake a number of strategic initiatives to re-align and expand its business.

New Technology Introduction

To appeal to a more performance-focused consumer, Converse introduced a high tech, extremely lightweight shoe, incorporating a patent pending "helium technology". To re-ignite the basketball category, in November 1999 Converse introduced a $100 basketball shoe that contains helium for the 1999/2000 basketball season. The shoe will be the lightest high performance basketball shoe on the market while still providing superior cushioning and comfort.

Diversification of Offerings

To decrease Converse's dependence on basketball, the Company has introduced Action Sports performance shoes and expanded the offerings of its women's originals products. In 1998, Converse introduced skateboard shoes in order to capitalize on the dramatic growth of alternative sports. In addition, Converse introduced a line of women's originals shoes, concentrating on the casual women athletic designs sold to specialty and department stores. Converse will also introduce a new "Lifestyle" product category which will consist of various models of a casual low-top white leather athletic shoe during the back-to-school 2000 season.

Capitalize on Rich Heritage

Converse has to marketed the Chuck Taylor® All Star® shoe since 1917 and the Jack Purcell® shoe since 1972. Converse has a vast array of archival products that are reintroduced in their original form or with a slight update to the product. This allows Converse to be in fashion with a consumer who is looking for genuine, authentic, original products.

Conversion of International Subsidiaries into Licensees

Converse is also in the process of converting several of its wholly-owned foreign subsidiaries into licensee/distributor agreements. This process has been completed in Spain, Portugal, Canada and Italy. Converse is continuing its conversion of the remaining international subsidiaries from directly operated subsidiaries to licensee/distributor arrangements. Once the remaining conversions are completed, the Company's operating profit and working capital will be significantly improved.

Streamlining Operations

From 1995 to 1998, Converse slashed its infrastructure resulting in operating expense reduction of over $53 million. The decrease of $53.6 million was the result of aggressive actions taken to address weak industry conditions in Fiscal 1997 and 1998. During 1999, the Company continued to reduce its selling, general and administrative (SG&A) expense structure with further reduction of approximately $19.0 million, excluding 1998's one-time credit of $9.0 million related to the reversal of accruals associated with the curtailment of the Company's post-retirement medical benefit plan.

In 2000, the Company will continue to reduce its spending structure across all functions and further conversion of the remaining international subsidiaries to licensee/distributor arrangements. The SG&A expenses for Fiscal 2000 are expected to be further reduced by approximately $24.0 million.

Discontinuing Operations at Unprofitable Retail Outlet Stores

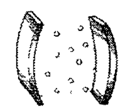
Converse is planning to discontinue operations at five (5) unprofitable retail outlets during the first quarter of 2000 and reduce associated overhead costs supporting these units. The retail locations selected are those where revenue levels have fallen or the overhead structure is generating operating losses.

Relocation of Manufacturing Facilities

Converse is in the process of evaluating the implications of relocating manufacturing facilities from North Carolina to Texas and Mexico. Converse is also looking into strategies for sourcing more product from foreign third party vendors.

Strategic Initiatives (Details)

New Technology Introduction



Nanofilament ™ technology

Converse is the first footwear manufacturer to harness the lighter-than-air helium atom by developing a revolutionary polymer that is impermeable to the helium atom. Converse has developed a breakthrough method to encapsulate helium molecules in a material known as Nanofilament™. Designed to improve the performance needs of serious athletes. The shoe containing the new helium technology debuted in the All Star® He:01 basketball shoe during the 1999 Holiday season. Subsequently, Converse plans to introduce a complete line of helium products in 2000 in the product categories of training, running, action sports and other basketball shoes.

Diversification of Offerings

In 1998, Converse diversified its offerings by introducing Action Sports and Women's Originals shoes. The Action Sports shoes (skateboard) are made for the consumer who shifted buying habits from basketball/training shoes to skateboard, trail running, and hiking shoes. This shift occurred because of the increasing popularity of individual sports compared to team sport activities. The skateboard shoes are designed for the serious enthusiast and are distributed to specialty stores throughout the world. Converse also expanded its offerings by introducing women's Athletic Originals. These are specifically designed to meet the needs of the 12 – 24 year old female consumer. The products are updated casual versions of Converse's heritage athletic shoes and are distributed to specialty and department stores.

New Product Category

Converse will introduce a new product category during the back-to-school ("BTS") 2000 season. The "Lifestyle" category will consist of various models of a casual athletic shoe with a low-top body style and white leather material. This category is being developed to capitalize on the white casual shoe trend which began on the West Coast and appears to be growing throughout the entire U.S. market. Some of the models that will be introduced are the "Cynch", the "Resonate" and the "Pacifico" and will sell in the retail markets in the $55 to $60 range. Converse believes that this casual footwear category is a natural extension of its performance basketball line and retailers are expected to carry this product in either of their performance or casual offerings, or both.

Capitalize of Rich Heritage

Converse's rich heritage is a cornerstone of the brand. Classic products like the Chuck Taylor® All Star® and Jack Purcell® have endured the test of time and are in continual demand throughout the world. Converse is continually developing versions of these two classic models by altering their color and material. This offers great commercial potential due to the loyal consumer base of these products, such as the One Star™ and Pro Leather™, which represents additional opportunities in the marketplace. With the

new Millennium, demand for classic products should strengthen because of their authenticity. In addition Converse will continue to develop new products that are directly inspired by classics and its heritage.

Conversion of International Subsidiaries into Licensees

In certain international markets, particularly Western Europe, historically Converse has operated wholly-owned subsidiaries. These subsidiaries have been responsible for the marketing and distribution of Converse branded products. In several countries, revenues have fallen as a result of the overall downturn of the athletic footwear market. Ongoing operating expenses of these subsidiaries has contributed negatively to Converse's profitability. In response Converse has recently entered into agreements with locally based independent companies, converting these under-performing subsidiaries into licensee/distributors, generating positive royalty streams. This conversion has been successfully completed in Spain, Portugal, Canada and Italy.

Converse is continuing its conversion of Benelux, Scandinavia and France during 2000, and Germany and the United Kingdom at the end of 2000. The existing conversions have already reduced operating expenses by \$6.2m, working capital by \$13.8m, and increased royalty income by \$1.4m on an annualized basis. Upon the successful conversion of all five remaining markets, it is estimated that there would be a further reduction of \$10.0m in expenses, \$16.4m in working capital, and increase of \$2.4m in royalty income on an annualized basis.

Streamlining Operations

From 1995 to 1998, Converse slashed its infrastructure resulting in operating expense reduction of over \$53 million. The decrease of \$53.6 million was the result of aggressive actions taken to address the weak industry conditions in Fiscal 1997 and 1998. During 1999, the Company continued to reduce its selling, general and administrative expense structure with further reduction of approximately \$19.0 million, excluding 1998's one-time credit of \$9.0 million related to the reversal of accruals associated with the curtailment of the Company's post-retirement medical benefit plan. In 2000, the Company continues to reduce spending structure across all functions and lower expense structure with the further conversion of certain international subsidiaries to licensees. The operating expense for Fiscal 2000 are planned at further reduction of approximately \$24.0 million from the prior year.

Relocation of Manufacturing Facilities

Converse currently operates three manufacturing facilities in Lumberton, North Carolina; Mission, Texas; and Reynosa, Mexico. The majority of sales generated from Converse's Athletic Originals category are from models manufactured at the Lumberton facility with supplemental production from Mission, Texas and leather cutting and stitching in Reynosa, Mexico. In order to capitalize on lower labor costs, management is contemplating the closure of the Lumberton plant and the transfer of all manufacturing operations to Mission, Texas and Reynosa, Mexico in 2001/2002. The total annual cost savings from this relocation are expected to reach \$7.0 million. One-time charges of approximately \$5.0 million related to the relocation would be expensed over the relocation period.

Appendix E: Cash Flow Models

Summary I: Management Expected Case

Total Transaction					Average Life:	5.04 years	Mgmt. or UCC ("0"/"1") Case:				0
Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Principal Paid from Cash, Reserves & Wrap	Interest From Cash, Reserves & Wrap	Minimum Accelerated Principal Payment	Minimum Management Fee	Maximum Accelerated Principal Payment	Insurance Claims	Total Debt Service (including Pre-payment from Reserve)	Excess Management Fee	Total Management Fees
0	85,000,000	16,651,200									
1	78,814,238	16,539,570	1,375,188	8,269,426	3,314,750	2,189,686	1,495,825	-	14,455,188	-	2,189,686
2	71,066,707	17,577,495	1,375,765	7,585,478	3,895,615	2,377,187	2,476,151	-	15,333,008	-	2,377,187
3	62,197,338	18,249,238	1,341,984	6,776,283	4,612,145	2,461,155	2,915,241	-	15,645,652	282,304	2,743,459
4	52,192,274	19,023,966	1,267,454	5,853,905	5,459,517	2,557,996	3,278,093	-	15,858,968	755,931	3,313,927
5	41,828,251	19,833,300	1,144,511	4,828,359	6,435,731	2,659,162	2,783,780	-	15,192,382	2,018,662	4,677,825
6	31,776,247	20,678,843	988,502	3,803,211	7,439,715	2,764,855	1,623,787	-	13,855,216	4,065,782	6,830,637
7	22.092,652	21,562,281	802,499	2,811,470	8,440,798	2,875,285	440,299	-	12,495,065	6,214,758	9,090,043
8	12.056,734	22,485,375	577,186	1,839,215	9,458,731	2,990,672	-	-	11,875,131	7,748,719	10,739,391
9	-	7,306,129	9,520,574	301,418	2,536,160	973,266	-	-	12,358,152	4,038,699	5,011,965
10	-	-	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-	-	-
16	-	-	-	-	-	-	-	-	-	-	-
17	-	-	-	-	-	-	-	-	-	-	-
18	-	-	-	-	-	-	-	-	-	-	-
19	-	-	-	-	-	-	-	-	-	-	-
20	-	-	-	-	-	-	-	-	-	-	-

Total Transaction (cont.)										
Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Manager Required Debt Service	Manager Trigger DSCR	Default Required Debt Service	Default DSCR	Liq. Reserve Balance	Liquidity	Net Loan	Net Loan to Value
0	85,000,000	16,651,200	9,868,855	1 54 x	9,868,855	1 54 x	8,500,000	10 0%	76,500,000	34 00%
1	78,814,238	16,539,570	9,644,613	1 71 x	9,644,613	1 71 x	8,802,319	11 2%	70,011,919	31 12%
2	71,066,707	17,577,495	8,961,243	1 96 x	8,961,243	1 96 x	9,115,391	12 8%	61,951,316	27 53%
3	62,197,338	18,249,238	12,730,411	1 43 x	8,118,267	2 25 x	9,439,597	15 2%	52,757,741	23 45%
4	52,192,274	19,023,966	12,580,875	1 51 x	7,121,359	2 67 x	9,775,335	18 7%	42,416,939	18 85%
5	41,828,251	19,833,300	12,408,602	1 60 x	5,972,871	3 32 x	10,123,014	24 2%	31,705,237	14 09%
6	31,776,247	20,678,843	12,231,428	1 69 x	4,791,713	4 32 x	10,483,059	33 0%	21,293,188	9 46%
7	22,092,652	21,562,281	12,054,767	1 79 x	3,613,969	5 97 x	10,855,909	49 1%	11,236,743	4 99%
8	12,056,734	22,485,375	11,875,131	1 89 x	2,416,401	9 31 x	11,242,021	93 2%	814,713	0 36%
9	-	7,306,129	2,938,522	2 49 x	402,362	18 16 x	-	-	-	0 00%
10	-	-	-	n/a	-	n/a	-	-	-	0 00%
11	-	-	-	n/a	-	n/a	-	-	-	0 00%
12	-	-	-	n/a	-	n/a	-	-	-	0 00%
13	-	-	-	n/a	-	n/a	-	-	-	0 00%
14	-	-	-	n/a	-	n/a	-	-	-	0 00%
15	-	-	-	n/a	-	n/a	-	-	-	0 00%
16	-	-	-	n/a	-	n/a	-	-	-	0 00%
17	-	-	-	n/a	-	n/a	-	-	-	0 00%
18	-	-	-	n/a	-	n/a	-	-	-	0 00%
19	-	-	-	n/a	-	n/a	-	-	-	0 00%
20	-	-	-	n/a	-	n/a	-	-	-	0 00%

Summary II: ABC Downside Case A

Total Transaction — Average Life. 5.49 years — Mgmt. or UCC ("0"/"1") Case: 1

Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Principal Paid from Cash, Reserves & Wrap	Interest From Cash, Reserves & Wrap	Minimum Accelerated Principal Payment	Minimum Management Fee	Maximum Accelerated Principal Payment	Insurance Claims	Total Debt Service (including Pre-payment from Reserve)	Excess Management Fee	Total Management Fees
0	85,000,000	16,651,200									
1	79,259,538	15,888,280	1,376,451	8,276,779	3,307,425	1,972,191	1.056,586	-	14,017,242	-	1,972,191
2	72,838,887	16,159,920	1,392,976	7,679,362	3,801,184	2,180,657	1,226,491	-	14,100,013	-	2,180,657
3	65,230,945	16,749,758	1,385,255	6,993,822	4,390,456	2,273,720	1.832,231	-	14,601,763	-	2,273,720
4	56,767,246	17,067,956	1,342,579	6,199,681	5,101,751	2,313,495	2,019,370	-	14,663,380	221,353	2,534,847
5	47,625,659	17,067,956	1,264,297	5,332,299	5,905,565	2,313,495	1,971,726	-	14,473,887	411,970	2,725,465
6	37,833,898	17,067,956	1,143,533	4,398,442	6,801,993	2,313,495	1,846,235	-	14,190,203	697,204	3,010,698
7	27,849,580	17,067,956	972,952	3,407,317	7,789,443	2,313,495	1,221,923	-	13,391,634	1,440,206	3,753,701
8	18,110,685	17,067,956	760,482	2,420,704	8,808,664	2,313.495	169,750	-	12,159,599	2,648,098	4,961,593
9	-	14,537,572	10,809,354	1,168,327	7,301,330	1,967,196	-	-	19,279,011	3,983,267	5,950,463
10	-	-	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-	-	-
16	-	-	-	-	-	-	-	-	-	-	-
17	-	-	-	-	-	-	-	-	-	-	-
18	-	-	-	-	-	-	-	-	-	-	-
19	-	-	-	-	-	-	-	-	-	-	-
20	-	-	-	-	-	-	-	-	-	-	-

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Total Transaction (cont.)

Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Manager Required Debt Service	Manager Trigger DSCR	Default Required Debt Service	Default DSCR	Liq. Reserve Balance	Liquidity	Net Loan	Net Loan to Value
0	85,000,000	16,651,200	9,868,855	1 54 x	9,868,855	1 54 x	8,500,000	10 0%	76,500,000	34 00%
1	79,259,538	15,888,280	9,653,231	1 65 x	9,653,231	1 65 x	8,802,319	11 1%	70,457,219	31 31%
2	72,838,887	16,159,920	9,072,338	1 78 x	9,072,338	1 78 x	9,115,391	12 5%	63,723,496	28 32%
3	65,230,945	16,749,758	12,769,533	1 31 x	8,379,077	2 00 x	9,439,597	14 5%	55,791,348	24 80%
4	56,767,246	17,067,956	12,644,010	1 35 x	7,542,259	2 26 x	9,775,335	17 2%	46,991,911	20 89%
5	47,625,659	17,067,956	12,502,161	1 37 x	6,596,596	2 59 x	10,123,014	21 3%	37,502,645	16 67%
6	37,833,898	17,067,956	12,343,968	1 38 x	5,541,975	3 08 x	10,483,059	27 7%	27,350,839	12 16%
7	27,849,580	17,067,956	12,169,712	1 40 x	4,380,268	3 90 x	10,855,909	39 0%	16,993,671	7 55%
8	18,110,685	17,067,956	11,989,849	1 42 x	3,181,185	5 37 x	11,242,021	62 1%	6,868,664	3 05%
9	-	14,537,572	8,869,769	1 64 x	1,568,439	9 27 x	-	-	-	0 00%
10	-	-	-	n/a	-	n/a	-	-	-	0 00%
11	-	-	-	n/a	-	n/a	-	-	-	0 00%
12	-	-	-	n/a	-	n/a	-	-	-	0 00%
13	-	-	-	n/a	-	n/a	-	-	-	0 00%
14	-	-	-	n/a	-	n/a	-	-	-	0 00%
15	-	-	-	n/a	-	n/a	-	-	-	0 00%
16	-	-	-	n/a	-	n/a	-	-	-	0 00%
17	-	-	-	n/a	-	n/a	-	-	-	0 00%
18	-	-	-	n/a	-	n/a	-	-	-	0 00%
19	-	-	-	n/a	-	n/a	-	-	-	0 00%
20	-	-	-	n/a	-	n/a	-	-	-	0 00%

Summary III: ABC Downside Case B

Total Transaction					Average Life.	7.81 years	Mgmt. or UCC ("0"/"1") Case				1
Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Principal Paid from Cash, Reserves & Wrap	Interest From Cash, Reserves & Wrap	Minimum Accelerated Principal Payment	Minimum Management Fee	Maximum Accelerated Principal Payment	Insurance Claims	Total Debt Service (including Pre-payment from Reserve)	Excess Management Fee	Total Management Fees
0	85,000,000	16,651,200									
1	79,302,843	15,295,792	1,376,633	8,277,840	3,306,369	1,418,172	1,014,155	-	13,974,997	-	1,418,172
2	73,562,034	14,191,262	1,397,934	7,706,134	3,656,361	849,869	686,513	-	13,446,943	-	849,869
3	58,584,832	13,316,040	11,370,493	7,127,897	3,262,740	571,841	343,969	-	22,105,099	-	571,841
4	52,497,471	12,276,900	6,087,361	5,607,509	-	-	-	-	11,694,871	-	-
5	46,966,185	11,079,903	5,531,286	5,021,868	-	-	-	-	10,553,154	-	-
6	41,932,865	9,999,612	5,033,320	4,489,439	-	-	-	-	9,522,759	-	-
7	37,344,669	9,024,650	4,588,196	4,004,632	-	-	-	-	8,592,828	-	-
8	33,153,461	8,144,747	4,191,208	3,562,356	-	-	-	-	7,753,564	-	-
9	29,315,306	7,350,634	3,838,155	3,157,974	-	-	-	-	6,996,129	-	-
10	25,922,327	6,633,947	3,392,978	2,919,566	-	-	-	-	6,312,544	-	-
11	23,202,047	5,987,137	2,720,281	2,975,328	-	-	-	-	5,695,609	-	-
12	20,724,319	5,403,391	2,477,728	2,661,096	-	-	-	-	5,138,824	-	-
13	18,462,649	4,876,561	2,261,671	2,374,656	-	-	-	-	4,636,326	-	-
14	16,392,767	4,401,096	2,069,882	2,112,940	-	-	-	-	4,182,822	-	-
15	14,311,641	4,158,724	2,081,126	1,870,395	-	-	-	-	3,951,521	-	-
16	11,969,316	4,158,724	2,342,326	1,609,195	-	-	-	-	3,951,521	-	-
17	9,333,008	4,158,724	2,636,308	1,315,213	-	-	-	-	3,951,521	-	-
18	6,367,587	4,158,724	2,965,421	986,515	-	-	-	-	3,951,936	-	-
19	3,084,824	4,158,724	3,282,763	620,040	-	-	-	-	3,902,803	-	-
20	-	3,861,748	3,084,824	206,836	-	280,000	-	-	3,291,660	25,490	305,490
								-			

Total Transaction (cont)										
Deal Year	Ending Principal Balance	Underwritten Collateral Cash Flow (Less taxes)	Manager Required Debt Service	Manager Trigger DSCR	Default Required Debt Service	Default DSCR	Liq Reserve Balance	Liquidity	Net Loan	Net Loan to Value
0	85,000,000	16,651,200	9,868,855	1 54 x	9,868,855	1 54 x	8,500,000	10 0%	76,500,000	34 00%
1	79,302,843	15,295,792	9,654,474	1 58 x	9,654,474	1 58 x	8,802,319	11 1%	70,500,524	31 33%
2	73,562,034	14,191,262	9,104,068	1 56 x	9,104,068	1 56 x	9,115,391	12 4%	64,446,643	28 64%
3	58,584,832	13,316,040	11,682,763	1 14 x	8,540,005	1 56 x	-	0 0%	58,584,832	26 04%
4	52,497,471	12,276,900	6,822,042	1 80 x	6,822,042	1 80 x	-	0 0%	52,497,471	23 33%
5	46,966,185	11,079,903	6,213,026	1 78 x	6,213,026	1 78 x	-	0 0%	46,966,185	20 87%
6	41,932,865	9,999,612	5,657,486	1 77 x	5,657,486	1 77 x	-	0 0%	41,932,865	18 64%
7	37,344,669	9,024,650	5,149,555	1 75 x	5,149,555	1 75 x	-	0 0%	37,344,669	16 60%
8	33,153,461	8,144,747	4,683,787	1 74 x	4,683,787	1 74 x	-	0 0%	33,153,461	14 73%
9	29,315,306	7,350,634	4,255,087	1 73 x	4,255,087	1 73 x	-	0 0%	29,315,306	13 03%
10	25,922,327	6,633,947	3,954,437	1 68 x	3,954,437	1 68 x	-	0 0%	25,922,327	11 52%
11	23,202,047	5,987,137	3,893,047	1 54 x	3,893,047	1 54 x	-	0 0%	23,202,047	10 31%
12	20,724,319	5,403,391	3,584,421	1 51 x	3,584,421	1 51 x	-	0 0%	20,724,319	9 21%
13	18,462,649	4,876,561	3,304,936	1 48 x	3,304,936	1 48 x	-	0 0%	18,462,649	8 21%
14	16,392,767	4,401,096	3,051,555	1 44 x	3,051,555	1 44 x	-	0 0%	16,392,767	7 29%
15	14,311,641	4,158,724	2,817,252	1 48 x	2,817,252	1 48 x	-	0 0%	14,311,641	6 36%
16	11,969,316	4,158,724	2,542,836	1 64 x	2,542,836	1 64 x	-	0 0%	11,969,316	5 32%
17	9,333,008	4,158,724	2,195,837	1 89 x	2,195,837	1 89 x	-	0 0%	9,333,008	4 15%
18	6,367,587	4,158,724	1,755,018	2 37 x	1,755,018	2 37 x	-	0 0%	6,367,587	2 83%
19	3,084,824	4,158,724	1,186,960	3 50 x	1,186,960	3 50 x	50,225	1 6%	3,034,599	1 35%
20	-	3,861,748	426,973	9 04 x	426,973	9 04 x	-	-	-	0 00%

Appendix F: Collateral Valuation

[Insert Qualifications & Credentials]

[Attach Valuation Report and Letter]

Appendix G: Legal Due Diligence

Trademark Due Diligence

[Insert. Qualifications & Credentials]

[Attach due diligence memorandum]

License Due Diligence

[
[Attach due diligence memorandum]

Appendix H: Industry Expert Opinion

[Attach memoranda]

Appendix I: Industry Overview

The Athletic Footwear Industry

The U.S. footwear industry is large, mature and highly fragmented. Industry participants compete with respect to fashion, price, quality, performance and durability. U.S. spending on footwear totals roughly $36 billion a year, with consumers purchasing more than one billion pairs of shoes.

According to Sporting Goods Intelligence ("SGI"), wholesale sales of branded athletic footwear in the United States were approximately $7.5 billion in 1998, down approximately 7% from $8 billion in 1997. During the second half of 1997, there was an overall weakening of the athletic footwear and apparel market which resulted in an oversupply of inventory in the marketplace. This weakness and oversupply of inventory continued through 1998 and 1999.

While the industry as a whole is struggling, some companies are growing, perhaps even thriving, with products that have found enthusiastic audiences. These companies tend to be small or mid-sized. Some focus on the teenage market; others target adults in their 20s and 30s.

The athletic footwear industry in the United States can be broken down into several groups. Nike Inc. ("Nike"), with 1998 estimated U.S. footwear revenues exceeding $3 billion, controls over 40% of the U.S. athletic footwear market. Reebok International, Inc. ("Reebok") and adidas-Solomon AG ("adidas"), each with 1998 estimated U.S. footwear revenues of approximately $1 billion, control over 10% of the U.S. market. New Balance Athletic Shoe Inc., Stride Rite Corporation and Fila USA, Inc. each have 1998 branded athletic footwear revenues of between $200 million and $350 million. Companies with revenues of under $200 million include Converse, K-Swiss, Vans, Airwalk, ASICS Tiger, Etonic and Saucony. Worldwide footwear industry data is unavailable, but the largest companies worldwide are believed to be Nike, Reebok and adidas.

The industry is intensely competitive and subject to rapid changes in consumer preferences as well as technological innovations. During 1998, running edged out basketball as the most popular style category in athletic footwear. Sales of running shoes increased 68% between 1994 and 1998 and "retro" or classic, styles have been extremely popular. However, as the country's obsession with the newest and latest athletic footwear products wanes, the same companies that developed much of the new athletic footwear have now expanded into the apparel and exercise markets.

Trends/Industry Changes

Interviews conducted during March and April of 1999 with ten executives of athletic footwear companies as well as 1999 industry reports identified several developing trends in the marketplace.

Success Despite Difficult Environment

Despite the difficult sales environment, some athletic footwear brands are experiencing success. Certain niche markets have continued to have strong performers, including running, fitness, basketball, performance hiking and leisure footwear. Retail buyers, looking for something new to offer consumers, were more willing to grant space to lesser well-known brands. However, even the companies with hot brands or hot products were finding it difficult to plan because of the widespread uncertainty and caution among retail buyers.

Excess of Retail Capacity

The excess of retail capacity – more stores with more space for more shoes than consumers want – continues to be a major problem. Last year, both manufacturers and retailers had excess inventory; this year, most of the excess was on the retail side. Executives said that discounting continued to be widespread

and expressed concern that extensive price-cutting could hurt brand power. However, as manufacturers better read the market need and reduce inventories and production capabilities, the excess inventory should decrease allowing retailers to increase dollar margins and work on a more selective footwear basis.

Recently, Just For Feet, one on the Company's top distributors, filed a bankruptcy court motion asking for approval to sell all assets. If this liquidation scenario is approved by the court, it is likely that much of the chain's 4 million plus square feet (composed of approximately 340 mall stores and 140 big box locations-stores over 500,000 sq. ft.) of retail selling space will largely be taken out of the industry, thereby reducing excess retail capacity.

Additionally, the major athletic footwear retailer, Venator Group Inc., owner of Footlocker and Champs Sports, has recently announced a restructuring plan which will close approximately 150 retail stores (133 in the U.S.). This will result in the elimination of approximately 480,000 sq. ft. of retail space. Included in these store closures are 27 Champs locations, 10 of which are in Canada. All inventory is expected to be liquidated between February and April of 2000. Again, Venator is one of Converse's top distributors, with sales in 1998 of $8.1 million. This restructuring will in turn effect the Company's future distribution strategy.

Brown Shoes

Because of the blurring of the lines between athleisure, "brown shoe", casual, fashion, and performance athletic footwear, it is becoming increasingly difficult for the athletic footwear industry to distinguish itself from the overall footwear market. "Brown shoes" generally are defined as outdoor and work-boot styles that are popular for street and school wear as well as casual shoes that are high in comfort and have design references to athletic footwear, such as lugged soles. The trend to casual dress in the workplace has given "brown shoes" a strong sales push, however, industry experts do not feel that the loss of market share due to "brown shoes" is necessarily permanent.

Mergers & Downsizing

For the past several years, the infrastructure of the manufacturer side of the athletic footwear industry has undergone considerable change due to an ongoing series of acquisitions, mergers, and initial public offerings (IPOs). "Merger mania" continues in the U.S. and the trend appears to be incessant. There were several mergers in the athletic footwear/apparel industry including the sale of Logo Athletic by Tultex Corporation to TKS Acquisition, New Balance purchased outdoor performance boot manufacturer, Dunham, and SLM International acquired Sports Holdings Corporations.

Another significant trend has been the streamlining of operations, corporate restructuring and cost reduction programs undertaken by some of the large athletic footwear companies. For example, Nike, Reebok and Converse announced employee layoffs, while Russell Corporation's restructuring plan calls for closing 25 of its 90 production facilities and cutting back 22% of its workforce. These moves, while aimed at the long term, are also a reaction to sales slumps in the U.S. market, the shift in fashion preference for "brown shoes" away from athletic footwear, and slower international sales growth precipitated by the Asian and South American financial crises.

Demographic Changes

Savvy marketers realize the need to address the changing composition of the U.S. population. The young children's market (ages 5-13) will actually decline by the end of the next decade, meaning marketers of products to the school market will have to work harder. Likewise, the young adult population (those aged 25-44) will decline by six percent by 2010. On the other hand, over the next decade, the number of adults, aged 45 to 54, will increase by seven million and the 55 to 64 age group is expected to rise by over nine million (+47%). The number of Americans, 65 or older, will climb by 11%.

Generation Y

Currently, teenagers are the key market for most athletic footwear companies, and many members of Generation Y (born between 1979 and 1994) do not respond to the same stimuli as Generation X or Baby Boomers. By and large, they are from non-traditional families and are living with one parent or a blended family (step-parents and others) more so than the prior generation. Therefore, it will be difficult, but important, for marketers to assess how spending more time away from home, the effect of diverse cable TV programming, and interactive media (such as the Internet) will mold their purchasing patterns and decision-making behavior.

Since teens and young children set fashion trends in motion, Generation Y is closely scrutinized by marketers. They want to entrench themselves in the minds of these consumers at an early age. The market research firm, Teenage Research Unlimited, Inc., estimated that teens spent $141 billion in 1998.

The Athletic Apparel Market

The athletic apparel industry is rapidly becoming the largest segment of the entire sporting goods industry. The market, defined by the Sporting Goods Manufacturer's Association ("SGMA") as "garments that are designed for or could be used in active sports", is estimated to have reached $19.55 billion in manufacturers' sales (at wholesale) in 1998 and the market is expected to continue growing at a moderate rate of at least 6% in 1999.

The market has become very complex with athletic, designer, casual, and urban street brands competing for the active consumer. The "Seventh Avenue" brands (Tommy Hilfiger, Ralph Lauren, etc.) have successfully entered into the athletic apparel market via the department store trade and the "inner city" cutting-edge fashion apparel and footwear brands (e.g. FUBU and Lugz) brings into focus the trend away from mass marketing to "brand-focused" marketing. The megabrand manufacturers are being challenged by the newer niche and microbrands. In the retail arena, specialty apparel firms, such as The Gap and Abercrombie & Fitch; sporting goods chains; outlet stores; and on-line retailers will wrestle to capture their share of this huge market.

There are several positive facts that have been operating in 1999. New product offerings in the skate, surf and snowboard markets, as well as the continued growth of the urban brands, will grow sales in the youth markets. Branded and performance-oriented manufacturers will court the women's market and expand technical products in the outdoor market. New fabrics featured in 1999, including fabrics with skin cancer protection, will also boost the market.

Recent Trends in the U.S. Apparel Industry

Over the past year, a number of U.S. apparel companies have been restructuring operations through consolidation of production, divestiture of non-core brands and product lines, mergers, and acquisitions in an effort to remain competitive in an increasingly global economy. Firms have been restructuring to shift their corporate focus from capital intensive, manufacturing driven operations to more marketing-driven, licensing operations.

Firms have also actively acquired and developed new brand names to complement existing product lines and have extended their existing brand names into new product categories (e.g., Liz Claiborne and Kasper ASL).

There are also a few firms that have been integrating forward into retailing to gain more control over their business and to seek sales growth (e.g., Ralph Lauren and Oshkosh B'Gosh).

Below is a summary of recent announcements made by some of the major, "bulge-bracket" apparel companies.

Firm and products	Recent restructuring activity
Levi Strauss & Co., Inc. San Francisco, CA Products include jeans, dress pants, and casual sportswear under Levi's, Dockers, and Slates brands.	In 1998, closed 12 of its 32 U.S. plants, involving 7,385 employees, and 4 of its 12 European plants, involving 1,461 employees, to eliminate excess capacity. As a result, eliminated 38 percent of its production capacity in North America. Will focus its efforts on consumer marketing. Announced plans to close 10 U.S. plants and one Canadian plant in 1999 involving 5,900 employees or 30 percent of total workforce.
Fruit of the Loom, Inc. Chicago, IL Products include underwear and casual apparel under Fruit of the Loom, BVD, Gitano, Munsingwear, and Wilson brands.	Since 1995, has closed 9 U.S. plants, employing more than 7,000 workers, and moved most sewing operations to Mexico and the Caribbean Basin countries in an effort to reduce costs. Also has consolidated its Gitano and licensed sportswear operation and discontinued use of the Salem brand.
Sara Lee Corp., Chicago IL Products include underwear, Intimate apparel, hosiery, Athletic and casual apparel under the Hanes Her Way, Playtex, Bali, and L'eggs brands and Champion brands.	In September 1997, unveiled a "deverticalization" plan to become less vertically integrated, own fewer fixed assets, and use knowledge-based skills to develop and market its goods. Subsequently announced the divestiture of nine textile operations related to its U.S. knit apparel business, so that it can focus more on product development and marketing.
VF Corp., Greensboro, NC Products include Wrangler, Lee, Rustler, Riders, and Britannia Jeans; Vanity Fair intimate apparel; Nutmeg Knitwear; and Healthtex playwear.	Since late 1996, has consolidated its operations into five consumer-focused marketing group; Jeanswear, Intimate Apparel, Knitwear, Playwear, and International; acquired Bestform Group, a leading producer of intimate apparel to augment offshore sourcing in Asia; and acquired Britannia Sportswear Ltd. From Levi Strauss to increase presence in mass merchandise market.
Oxford Industries, Inc. Atlanta, GA Products include men's tailored clothing under Oscar de la Renta, Robert Stock , Nautica, and Geoffrey Beene brands; J.C. Penney Stafford suits; Eddie Bauer slacks; L.L. Bean men's slacks and shirts; and Tommy Hilfiger dress and golf shirts.	Plans to reduce costs through increased global sourcing; invest in new and expanded production facilities in Latin America and Asia; and expand operations through additional acquisitions and start-up opportunities.

Kellwood Co., St. Louis, MO Products include women's branded and private label apparel, such as Kathie Lee, Sag Harbor, Cricket Lane, Harve Benard, and Nautica dress shirts.	Plans to expand its branded label products, broaden its customer base, increase its distribution channels, and further develop its global product sourcing capability. In December 1998, announced the signing of agreements to acquire Fritzi California, which will enable Kellwood to tap into the juniors' and girls' sportswear market, and Koret of California, Inc., which will broaden its range of moderate price points in women's sportswear.
Russell Corp., Alexander City, AL Products include sportswear under the Russell Athletic, Jerzees, and Cross Creek labels, and athletic uniforms.	Unveiled a plan in July 1998 to restructure operations over a 3-year period so as to improve its global competitiveness; expected to result in an after-tax charge of $100 to $125 million. Actions under consideration include closing about 25 of its 90 plants worldwide, expanding foreign production, consolidating the licensed products business, and reorganizing the corporate structure. Anticipates eliminating about 4,000 positions. Enhanced consumer market efforts will be a priority.
Salant Corp., New York, NY Products include men's apparel under such brands as Perry Ellis, Manhattan, and John Henry; private labels such as Canyon River Blues for Sears; and licensed children's sleepwear, underwear, and sportswear.	In December 1998, filed voluntary petition for relief under chapter 11 of the United States Bankruptcy Code. Under its chapter 11 restructuring plan, Salant intends to focus solely on its Perry Ellis men's apparel business. In February 1999, Salant announced that it reached an agreement to terminate its license to manufacture and distribute Joe Boxer children's sportswear. In 1997, Salant discontinued its Thomson pant business and Made in the Shade division, and closed its non-Perry Ellis stores.
Tropical Sportswear International Corp., Tampa, FL Products include Farah and Savane slacks and private label men's slacks and shirts.	In 1998, bought Savane International Corp (formerly known as Farah Inc.), a producer of men's trousers and shorts bearing national brands such as Savane, Farah, and John Henry. Intends to pursue acquisitions as part of its business strategy; plans to expand Caribbean operations if NAFTA parity is granted to U.S. apparel imports from CBERA countries.
Warnaco Group Inc., New York, NY Products include women's intimate apparel and men's underwear under its own brand names, such as Warner's, Olga, Calvin Klein (underwear and intimate apparel), Lejaby, Bodyslimmers, and Van Raalte; holds exclusive licenses for White Stag and Speedo trademarks.	Acquired the worldwide trademarks, rights, and business of Calvin Klein's men's underwear in 1994 and Calvin Klein's and women's intimate apparel in 1995. In 1996, acquired GJM, Lejaby, and Bodyslimmers, designed to increase the worldwide distribution of Company's intimate apparel and sleepwear, including Calvin Klein brand. In 1997, acquired Designer Holdings Ltd., holder of a 40-year extendable license from Calvin Klein for jeanswear and jeans-related sportswear collections under the Calvin Klein label. Expanded retail outlet stores to provide a channel for disposing of excess and irregular inventory and limit exposure to off-price retailers.

Hartmarx Corp., Chicago, IL Products include men's tailored clothing (e.g., suits) under Hart Schaffner & Marx and Hickey-Freeman Labels. Also owns such labels as Palm Beach and Sansabelt and holds exclusive license for such labels as Burberrys.	In 1996, acquired Plaid Clothing Group, Inc., a producer of men's tailored clothing, which provided Hartmarx the licensing rights to manufacture and market men's tailored clothing under the Burberrys, Claiborne, and Evan-Picone brands, as well as ownership of the Palm Beach, Brannoch, and other trade names. In 1995, acquired a slack production facility in Mexico and a coat and slack production factory in Costa Rica to reduce costs.
Oshkosh B'Gosh, Inc., Oshkosh, WI Products include children's apparel under the Oshkosh, Oshkosh B'Gosh, Baby B'Gosh, Genuine Girl, and Genuine Blues labels.	Plans to close under-performing units, eliminate excess capacity, and expand offshore sourcing to improve cost structure. Discontinued Genuine Kid brand, closed less profitable European operations and entered into licensing agreement for European market, and expanded its retail channels by adding additional company-owned stores. Operates 119 domestic Oshkosh B'Gosh branded stores, including 111 factory outlet stores.
Phillips-Van Heusen Corp., New York, NY Products include shirts and sportswear under the Van Heusen, Izod, Bass, Gant, and Geoffrey Beene labels.	Acquired Izod and Gant brands in 1995. In 1997, announced plan to accelerate the execution of its strategy to build its brands. Included in plan were the closing of about 150 outlet stores, repositioning the Gant brand in the United States to be consistent with its successful positioning in Europe and Asia, exiting the sweater manufacturing business, and restructuring warehousing facilities.
Liz Claiborne, Inc., New York, NY Products include apparel and accessories under its portfolio of brands and trademarks.	Under licensing arrangements, licensees produce goods for Liz Claiborne under its trademarks in accordance with designs furnished by Company. Entered into a license agreement in 1998, with an affiliate of Donna Karan International, Inc., to design produce, market and sell men's and women's sportswear, jeanswear, and activewear under the DKNY JEANS and DKNY ACTIVE labels. Also launched a line of women's apparel under the JH COLLECTIBLES labels. Operates 113 stores in the United States which carry only company products.

Source: USITC Apparel Industry & Trade Summary, March 1999

Retail Sales of Licensed Merchandise, By Property Type, 1992-1998
All dollars in billions

	1992	1993	1994	1995	1996	1997	1998
Art	$ 4.40	$ 4.74	$ 4.88	$ 5.08	$ 5.20	$ 5.25	$ 5.40
Celebrities/Estates	$ 2.40	$ 2.55	$ 2.65	$ 2.54	$ 2.57	$ 2.61	$ 2.10
Entertainment/Character	$ 14.10	$ 15.80	$ 17.22	$ 16.19	$ 16.70	$ 16.13	$ 15.10
Fashion	$ 12.00	$ 11.80	$ 12.04	$ 12.16	$ 12.60	$ 13.16	$ 12.85
Music	$ 0.90	$ 0.97	$ 1.05	$ 1.08	$ 1.03	$ 1.00	$ 1.20
Non-profit	$ 0.60	$ 0.65	$ 0.68	$ 0.69	$ 0.70	$ 0.72	$ 0.75
Publishing	$ 1.40	$ 1.50	$ 1.56	$ 1.59	$ 1.64	$ 1.57	$ 1.45
Sports	$ 12.10	$ 13.14	$ 13.80	$ 13.39	$ 13.79	$ 13.65	$ 12.60
Toys/Games	$ 2.50	$ 2.55	$ 2.73	$ 2.78	$ 2.71	$ 2.81	$ 2.65
Trademarks/Brands	**$ 11.60**	**$ 12.64**	**$ 13.15**	**$ 14.20**	**$ 15.11**	**$ 16.06**	**$ 16.90**
Other	$ 0.20	$ 0.26	$ 0.26	$ 0.22	$ 0.23	$ 0.27	$ 0.15
Total	**$ 62.20**	**$ 66.60**	**$ 70.02**	**$ 69.92**	**$ 72.28**	**$ 73.23**	**$ 71.15**

Source: *The Licensing Letter*, EPM Communications, Inc

Retail Sales of Licensed Fashion-Based Merchandise, By Product Category, 1993-1998
All dollars in millions

	1993	1994	1995	1996	1997	1998
Accessories	$ 1,718	$ 1,735	$ 1,761	$ 1,821	$ 1,930	$ 1,875
Apparel	**$ 4,140**	**$ 4,099**	**$ 4,017**	**$ 4,150**	**$ 4,380**	**$ 4,275**
Domestics	$ 1,210	$ 1,295	$ 1,360	$ 1,425	$ 1,495	$ 1,450
Footwear	**$ 824**	**$ 832**	**$ 832**	**$ 850**	**$ 890**	**$ 860**
Furniture/Home Furnishings	$ 21	$ 22	$ 23	$ 24	$ 24	$ 28
Gifts/Novelties	N/A	$ 120	$ 122	$ 127	$ 130	$ 123
Health/Beauty	$ 2,170	$ 2,300	$ 2,392	$ 2,503	$ 2,575	$ 2,520
Housewares	$ 536	$ 552	$ 563	$ 570	$ 585	$ 560
Infant Products	$ 590	$ 602	$ 608	$ 637	$ 665	$ 685
Publishing	$ 236	$ 238	$ 238	$ 238	$ 230	$ 215
Stationery/Paper Products	$ 236	$ 241	$ 122	$ 127	$ 127	$ 130
Toys/Games	$ 118	$ 116	$ 118	$ 123	$ 123	$ 120
Other	$ 1	$ 9	$ 4	$ 4	$ 6	$ 7
Total	**$ 11,800**	**$ 12,161**	**$ 12,160**	**$ 12,599**	**$ 13,160**	**$ 12,848**

Source: *The Licensing Letter*, EPM Communications, Inc.

Retail Sales of Licensed Fashion-Based Merchandise, By Distribution Channel, 1994-1998

	1994	1995	1996	1997	1998	Average
Tele-shopping	1%	1%	1%	1%	1%	1%
Department Stores	29%	28%	27%	26%	25%	27%
Specialty Stores	28%	27%	27%	28%	29%	28%
Discounters	31%	32%	34%	34%	34%	33%
Mail-Order	8%	10%	9%	9%	9%	9%
Other	3%	2%	2%	2%	2%	2%
Total (in Billions)	**$ 12.04**	**$ 12.16**	**$ 12.60**	**$ 13.16**	**$ 12.85**	

Source: *The Licensing Letter*, EPM Communications, Inc

Average Royalty and Range of Royalties, By Property Type, 1994-1998

Property Type	1994	1995	1996	1997	1998	Range 1997-98
Art	6.9%	7.8%	8.6%	7.0%	6.6%	5%-10%
Celebrities/Estates	7.0%	7.2%	9.6%	10.0%	9.0%	5%-12%
Entertainment/Character	8.5%	9.1%	10.3%	11.1%	11.3%	5%-13%
Fashion	6.0%	7.4%	6.8%	6.8%	6.2%	5%-7%
Music	N/A	N/A	7.6%	9.0%	9.0%	6%-12%
Non-Profit	8.5%	8.5%	N/A	7.3%	7.6%	5%-9%
Print Publishing	7.3%	7.3%	10.0%	7.4%	7.4%	6%-20%
Sports	8.5%	8.8%	10.4%	9.3%	9.5%	3%-16%
Trademarks/Brands	**6.2%**	**7.1%**	**7.0%**	**6.6%**	**7.2%**	**5%-12%**
Toys/Games	8.0%	8.1%	7.7%	6.8%	9.5%	8%-10%
Overall Average	7.4%	8.3%	8.9%	8.3%	8.7%	3%-20%

Note: These are average royalties by property type; royalties for individual deals may fall outside these ranges. N/A = Not enough responses for meaningful number.

Source: *The Licensing Letter*, EPM Communications, Inc.

Average Royalty and Range of Royalties, By Product Category, 1994-1998

Product Category	1994	1995	1996	1997	1998	Range 1997-98
Accessories	7.3%	7.7%	8.6%	7.6%	7.7%	3%-12%
Apparel	**7.6%**	**8.6%**	**8.6%**	**8.9%**	**8.7%**	**3%-20%**
Domestics	6.7%	7.4%	7.5%	5.0%	8.1%	5%-13%
Electronics	8.0%	6.5%	9.0%	N/A	5.7%	3.5%-8%
Food/Beverage	5.8%	5.8%	8.7%	5.1%	8.5%	6%-11%
Footwear	**6.4%**	**8.0%**	**6.2%**	**5.7%**	**6.6%**	**4%-8%**
Furniture/Home Furnishings	5.9%	7.8%	7.3%	7.0%	6.4%	3.5%-10%
Gifts/Novelties	8.6%	8.6%	10.0%	8.6%	8.6%	6%-10%
Health/Beauty	6.0%	9.0%	N/A	N/A	5.0%	3%-10%
Housewares	8.5%	8.5%	8.0%	6.8%	7.8%	7.5%-8%
Infant Products	6.7%	9.4%	8.4%	8.5%	5.8%	3%-8%
Music/Video	8.9%	11.0%	11.6%	N/A	6.8%	5%-8%
Publishing	8.0%	9.0%	10.2%	9.7%	8.5%	4%-12%
Sporting Goods	8.0%	8.0%	8.0%	8.7%	8.9%	7.5%-10%
Stationery/Paper	8.0%	8.0%	8.6%	8.7%	7.8%	5%-10%
Toys/Games	7.8%	8.6%	9.8%	8.9%	9.3%	5%-13%
Videogames/Software	7.6%	7.7%	7.5%	4.0%	7.9%	4%-16%
Overall Average	**7.4%**	**8.3%**	**8.9%**	**8.3%**	**8.7%**	**3%-20%**

Note: These are average royalties by product category; royalties for individual deals may fall outside these ranges. N/A = Not enough responses for meaningful number.

Source: *The Licensing Letter*, EPM Communications, Inc.

The Value of Brands

Brands convey an image to the consumer encompassing such factors as style and quality, and increasingly, lifestyle identity. According to the 1998 KSA/NPD Branding Study, 90% of consumers buy apparel brands because of previous satisfaction with the brand, while 84% associate brands with durability and workmanship of the product. Consequently, apparel manufacturers and retailers view strong brands as an essential factor in sustaining revenue growth.

Powerful brands influence customer preference, strengthen the bottom line, and can even boost market valuation. No industry reflects this more clearly than the apparel industry. The importance of brands influences many of the current trends shaping the apparel business, most notably recently announced licensing transactions and brand acquisitions.

An Appetite for Brands

The demand for brands is driving a wave of acquisitions throughout the industry. At the high end, LVMH was recently embroiled in a protracted battle for control of Gucci, which the company had sought to add to its stable of respected brands: Christian Dior, Louis Vuitton and Givenchy, among others. Meanwhile, Jones Apparel has been acquiring licensed manufacturers with key brands. Last year the company expanded its line of Ralph Lauren licenses through the purchase of jeans maker Sun Apparel, whose licenses include Polo Ralph Lauren. Furthermore, Liz Claiborne is rumored to be eyeing DKNY, a company whose brands Claiborne already licenses for several lines.

Established brands that maintain a clear identity and a group of licensees who adhere to that identity often become "evergreen" properties, generating a steady flow of royalty revenue year after year. Two recent transactions confirmed the value of such brands. In January, the Perry Ellis brand sold for $75 million at a multiple of five times estimated royalty revenue of $15 million. Similarly, the March sale of the Anne Klein trademark and licensing business generated approximately $62 million on royalty revenue of $12 million.

Below is a table with a selection of relevant apparel brand and trademark transactions:

Recent Selected Transactions

Transaction details

Date	Target/Brand/Label	Acquiror	Price ($MM)	% Purchased
Jan-96	Adrianne Vittadini	Marissa Christina	19.00	100%
Jun-96	Arrow Shirts	Licensees	35.00	50%
Jul-96	Emanuel Ungaro	Ferregamo	35.00	100%
Sep-97	Brittania	VF Corp.		100%
Sep-97	Salomon	adidas	1,400.00	100%
Nov-97	Sideout Sport	Cherokee Inc.	2.00	100%
Jan-98	Valentino	Holdin de Partecipazioni Industriala	300.00	100%
Apr-98	Halston	Catterton Investments	15.00	100%
Jun-98	Gucci	Prada	260.00	10%
Aug-98	Bongo Jeans	Candies	15.25	100%
Aug-98	Herve Leger	BCBG Max Azria		100%
Sep-98	Ocean Pacific	Doyle & Boissiere Fund LLC		86%
Nov-98	Pusser's Ltd	Hartmarx		50%
Jan-99	Lanerie Agnona	Zenga		100%
Jan-99	Perry Ellis	Supreme	75.00	100%
Jan-99	Sigrid Olsen	Liz Claiborne	54.00	84.5%
Feb-99	Kate Spade	Neiman Marcus	33 60	56%
Feb-99	Todd Oldham	Jones Apparel		100%
Mar-99	Anne Klein	Kapser ASL	60.00	100%
Mar-99	GANT	LVMH/Pyramid Sportswear	71.00	100%
Mar-99	Helmut Lang	Prada		51%
Mar-99	John Henry/Manhattan	Supreme Int. Corp.	35.00	100%
Mar-99	Nine West	Jones Apparel	885.00	100%
Apr-99	Faded Glory	Walmart		100%
May-99	Gucci	Pinualt	3,000.00	100%
May-99	Leslie Fay	Financial Buyers	15.30	36%
Jun-99	Lucky Brand Dungarees	Liz Clairborne		85%
Jun-99	XOXO	Aris Industries	20 00	100%
Jul-99	Airwalk	Sunrise Capital Partners		100%
Jul-99	Buster Brown	Kleinert's		100%
Jul-99	Happy Kids	HIG Capital LLC	120.00	100%
Jul-99	JP Gaultier	Hermes Int.	24.20	35%
Jul-99	Kenneth Cole	Liz Clairborne	29.00	7.4%
Jul-99	Sasson	Walmart	15.00	100%
Jul-99	Starter	Logo Athletic/Value City	46.00	100%
Aug-99	Duofold / J. E. Morgan	Sara Lee Corporation	95.70	100%
Aug-99	Jil Sandler	Prada	110.00	75%
Sep-99	Adrianne Vittadini	de V&P Inc.	13.00	100%
Sep-99	Bally	Texas Pacific Group	200.00	100%
Sep-99	Joseph	LVMH Moet Hennessey Louis Vuitton	30.00	10%
Sep-99	Kenar	Garfield & Marks	1.55	100%
Sep-99	Old England	Vendome		100%
Sep-99	Tag Heur	LVMH Moet Hennessey Louis Vuitton	814.00	100%
Sep-99	Thomas Pink	LVMH Moet Hennessey Louis Vuitton	82.00	72%
Oct-99	Authentic Fitness	Warnaco	525.00	100%
Oct-99	Church & Co.	Prada	172.00	75%
Oct-99	Ebel & Chaumet	LVMH Moet Hennessey Louis Vuitton	460.00	100%
Oct-99	Fendi	Prada / LVMH	425.00	51%
Oct-99	Laundry by Shelli Segal	Liz Claiborne	50.00	100%
Oct-99	Martha Stewart	Public Offering	193.00	15%
Oct-99	Regina Rubens	LVMH Moet Hennessey Louis Vuitton	4.00	34%
Oct-99	Ride, Inc.	K2 Inc.	12.40	100%
Oct-99	Yves St Laurent	Gucci	128.00	100%
Oct-99	Sergio Rossi	Gucci	96.00	70%
Oct-99	Bill Blass	Tharanco	30.00	100%
Oct-99	Converse (Japan non-footwear)	Itochu	25.00	100%

Source:UCC estimates, Company reports and industry and trade publications

License to Grow

One of the most significant elements of apparel brand licensing management is an attempt to leverage a product name across multiple product lines and market segments. Brand extension across multiple apparel and accessory categories or territories increases the complexity of the business, which in turn enhances the volatility of revenue and earnings. By maintaining a brand through diligent licensing activity, apparel licensors develop a diversified and more predictable income stream, tapping the expertise of licensees in a specific product category or geographic region. As indicated in the table below, a significant portion of the major designer names currently license a significant amount of their business to third parties.

	Licensed Categories						
Major Product Category	**Polo Ralph Lauren**	**Tommy Hilfiger**	**Nautica**	**Jones**	**Liz Claiborne**	**Donna Karan**	**Calvin Klein**
Mens Sportswear	x (a)	In-House	In-House	In-House	In-House	In-House	In-House
Womens Sportswear	x (a)	In-House (b)	x	In-House	In-House	In-House	In-House
Jeans	x	In-House (b)	x	In-House	In-House	x	x
Children's	x	In-House	x		x	x	x
Infants and Toddlers	x	In-House	x				x
Tailored Clothing	x	x	x	x	x	In-House	x
Accessories	x	x	x	x	In-House	In-House	x
Men's Furnishings	x	x	x	x	x	x	x
Intimate Apparel	x	x		x		x	x
Hosiery	x	x	x	x		x	x
Home Furnishings	x	x	x		x		x
Furniture	x						
Tabletop	x				x		x
Frangrance	x	x	x	x	In-House	x	x

(a) The majority of Polo Ralph Lauren's menswear business is in-house; womenswear, designer and bridge lines are also in-house.
(b) Tommy Hilfiger acquired Pepe Jeans USA, its jeans and women's sportswear licensee, in May 1998.

Source: Company reports

Many of the largest apparel manufacturers and retailers owe their success in part to their roles as either licensors or licensees. Designer megabrand companies such as Ralph Lauren and Tommy Hilfiger seek new revenue and extend brand identity through well-managed licensing activity. Conversely, manufacturers Jones Apparel Group (Ralph Lauren, Evan-Picone) and Warnaco (Calvin Klein, Chaps by Ralph Lauren) exploit economies of scale in production by amassing multiple licenses in specific product categories. And more recently, retailers ranging from Bloomingdale's to Wal-Mart are licensing brand names for specific apparel categories. They seek a unique appeal to consumers in an attempt to imitate the success and profitability of branded retailers such as the Gap.

According to Stephen Wayne, licensing agent and former Calvin Klein executive, the key to a strong licensing equation is, "A nationally known trademark with a high brand equity." (License!, March 1999) Wayne has been noted recently for his revitalization of the once bankrupt B.U.M. Equipment sportswear brand through a direct-to-retail licensing agreement with Target Stores. Similarly, Wayne is reviving the bankrupt juniors fashion brand Rampage in part by farming out unprofitable manufacturing and signing up a dozen licensees. Wayne projects wholesale revenue at Rampage will increase 50% to $50M by the end of 1999.

Direct-to-retail licensing is an emerging trend that has given life to both new and recovering brands. At the high end, Bloomingdale's has created a new label with Tahari — Tahari and Bloomingdale's — seeking to exploit consumer demand for designer brands across a variety of apparel categories. Meanwhile, the once financially troubled Cherokee brand has been revived as the core of the apparel strategy at Target. Behind CEO Bobby Margolis, Cherokee emerged from the ashes of multiple Chapter 11 filings on the strength of a broad, exclusive licensing agreement with Target. Comparable agreements have tied the once defunct Faded Glory and Route 66 labels to Wal-Mart and Kmart, respectively.

Repositioning through licensing has also revived the growth of many designer labels. Stephen Wayne also serves as agent for the Andrew Fezza menswear brand, which has seen volume soar as licensing supported its move from a designer collection business to a main floor department store brand. Similarly, Jones Apparel Group has had initial success with the repositioning of its Evan-Picone women's wear brand to the main floor through licensing.

The Role of the Retailer in Brand Equity

Historical Growth of the U.S. Apparel Market - By Distribution Channel

Year-Over-Year Growth	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**CAGR**
Total Apparel Sales	--	7%	5%	5%	2%	6%	5%	5%
Year-Over-Year Growth								
Department Stores	--	0%	1%	6%	0%	3%	5%	2%
Specialty Stores	--	5%	1%	1%	3%	2%	7%	3%
Major Chains	--	11%	5%	5%	2%	7%	4%	6%
Discount Stores	--	9%	9%	9%	5%	6%	5%	7%
Off-Price Retailers	--	9%	8%	10%	-3%	7%	3%	5%
Factory Outlets	--	11%	21%	4%	9%	5%	-1%	8%
Direct Mail	--	15%	9%	2%	2%	18%	3%	8%
Other Outlets (a)	--	11%	8%	-2%	2%	11%	7%	6%
% Of Total Sales								
Department Stores	22%	20%	19%	19%	19%	18%	18%	
Specialty Stores	24%	23%	22%	22%	22%	21%	22%	
Major Chains	16%	17%	17%	17%	17%	17%	17%	
Discount Stores	17%	18%	18%	19%	20%	20%	20%	
Off-Price Retailers	6%	6%	6%	7%	6%	7%	6%	
Factory Outlets	3%	4%	4%	4%	4%	4%	4%	
Direct Mail	5%	6%	6%	6%	6%	6%	6%	
Other Outlets (a)	6%	7%	7%	6%	6%	7%	7%	

(a) Other outlets includes warehouse clubs and food and drug retailers.

Source: The NPD Group, Inc.

Appendix J: Case Studies in Brand Exploitation

Following are articles tracing the history and applicable events concerning Apparel Brands and Licensing:

1. Cherokee
2. B.U.M. Equipment
3. Starter
4. Miscellaneous

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Appendix